A NATURAL EVOLUTION

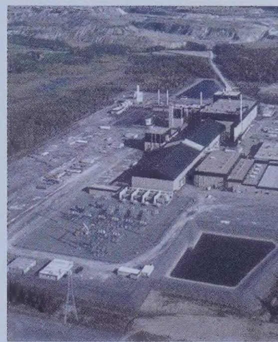
Gaz Métropolitain 2000 Annual Report

Gaz Métropolitain

Connecting with the future

Gaz Métropolitain pursues the development of its natural gas distribution activity in Québec and the northeastern portion of North America with **determination**. Two keys to our **growth** are increased customer appreciation of the service and the commodity, and the **confidence** of our employees to satisfy customer expectations. Our personnel have taken up the total **quality** challenge by systematically looking for ways to improve. The use of the best materials to carefully construct our gas distribution system, coupled with stringent monitoring and maintenance standards, ensures **reliability** of supply and reinforces customers' sense of **security**. Customers are also discovering that natural gas appliances provide them with **comfort** and meet the highest standards of **efficiency**, thereby preserving the resource and respecting the environment.

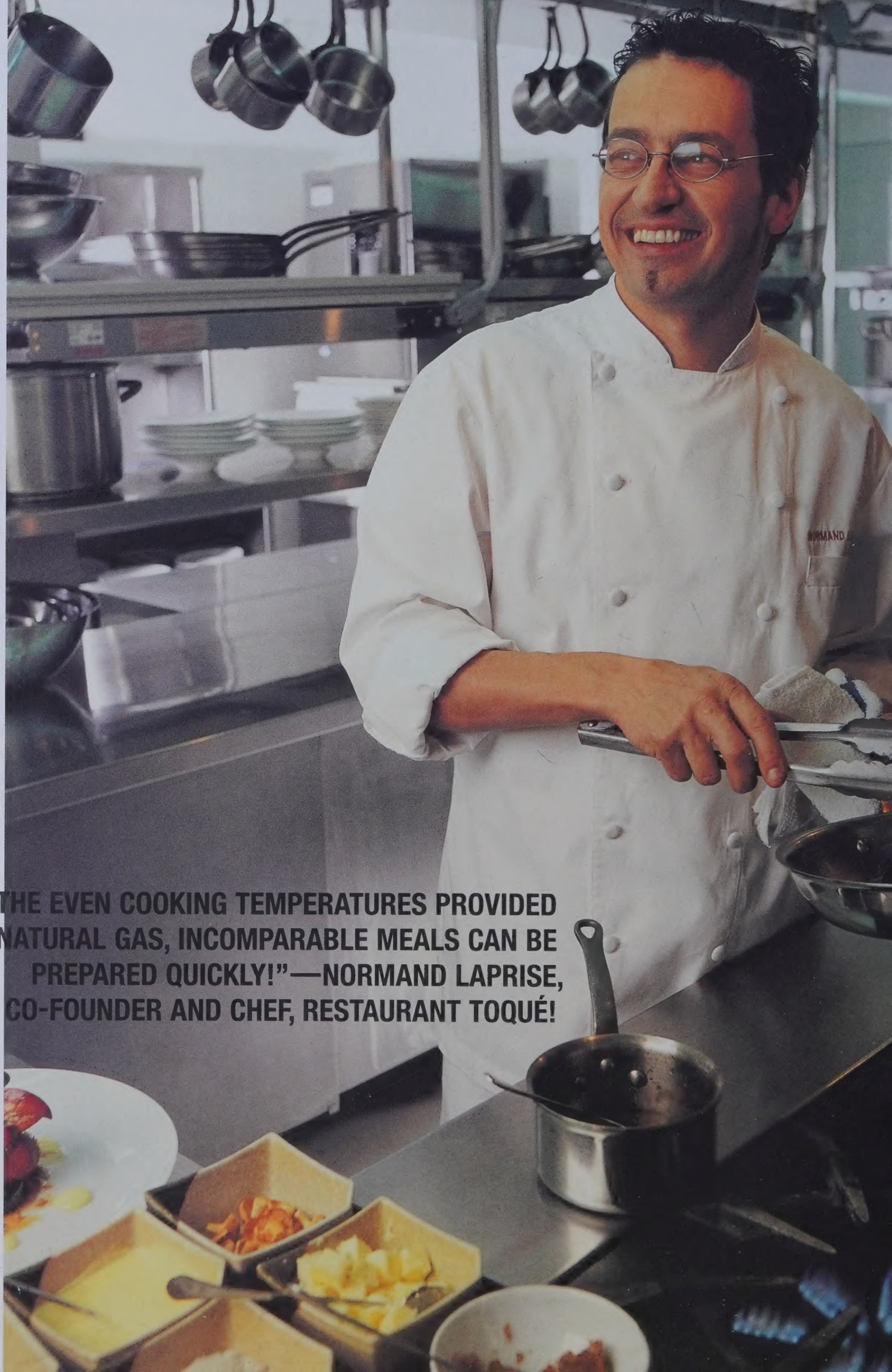
"WE WERE LOOKING FOR A CLEAN SOURCE OF ENERGY FOR A CLEAN PLANT"—MICHEL BÉDARD, VICE PRESIDENT AND GENERAL MANAGER, MAGNOLA



In Danville, near Asbestos, is located Noranda Inc.'s new Magnola plant, the largest magnesium plant in the world. Magnola is noted not only for its production capacity but for its manufacturing process – magnesium extraction from serpentine residues found in abundance in the area. This unique method is based on sustainable development. Natural gas is used in this ultra-modern plant because, according to Michel Bédard, Vice President and General Manager, "we were looking for a clean source of energy". It is utilized as the energy source for two turbines used to produce electricity and steam required for the process, to produce hydrogen and to evaporate water quickly. "Today, Magnola is the third largest consumer of natural gas in Québec" says Mr. Bédard.

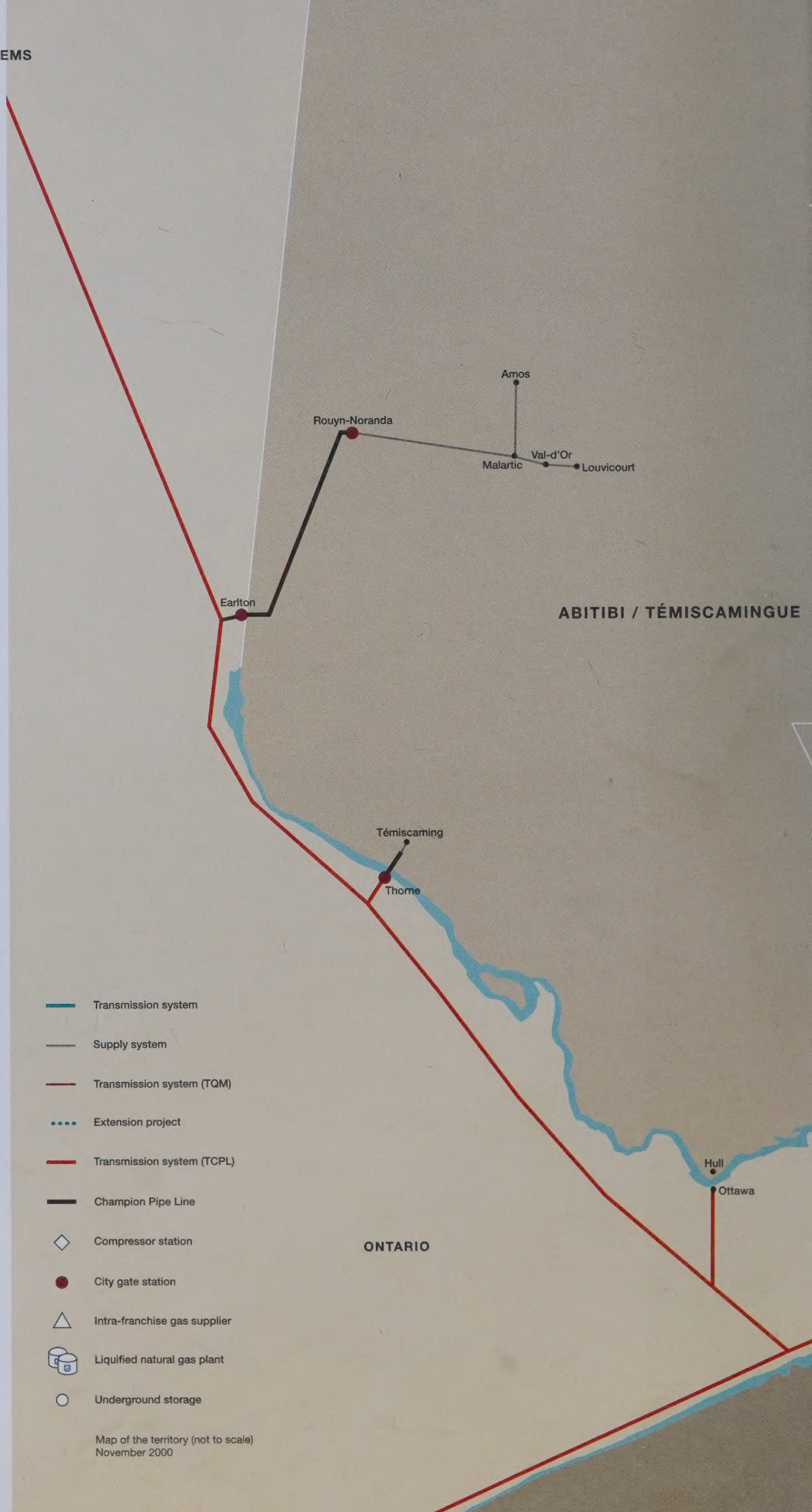
Jacques Vincent and Jonathan Sigler, Co-presidents of Alliance Real Estate Group, claim that "for our customers, natural gas is synonymous with quality of life". On both banks of the Saint Lawrence, in the *Village Liberté sur Berge* in Brossard and the *Mount Royal Square*, Alliance proposes natural gas for its residential complexes. Homes in both developments can accommodate gas ranges, fireplaces and central heating. "Most of our clients opt for natural gas" states Mr. Vincent. Recipient of numerous *Domus* prizes for architecture, Alliance led the way with natural gas as early as 1994 in the Mount Royal Square. Virtually all of the owners of the 187 townhouses in the Town of Mount Royal residential complex prefer the comfort and efficiency of natural gas. "Our clients are extremely satisfied with the choice they made" adds Mr. Vincent.

"FOR OUR CUSTOMERS, NATURAL GAS IS SYNONYMOUS WITH QUALITY OF LIFE"—JACQUES VINCENT AND JONATHAN SIGLER, CO-PRESIDENTS, ALLIANCE REAL ESTATE GROUP



"WITH THE EVEN COOKING TEMPERATURES PROVIDED BY NATURAL GAS, INCOMPARABLE MEALS CAN BE PREPARED QUICKLY!"—NORMAND LAPRISE, CO-FOUNDER AND CHEF, RESTAURANT TOQUÉ!

Since 1993, Normand Laprise has been tantalizing the taste buds of a growing number of fine-dining connoisseurs who are regular customers of the Restaurant Toqué!. His reputation as a chef has grown through his love of cooking with fresh produce that brings out the natural country flavor and his uncanny ability to create appetizing dishes. Of course, everything has to be cooked to perfection: "When the kitchen is at its busiest, there are 18 to 24 gas burners going at the same time" explains Chef Laprise, who continues "With the even cooking temperatures provided by natural gas, incomparable meals can be prepared quickly; in just a few seconds, we reach the desired temperature and it can be lowered just as quickly." And something else, perhaps more symbolic according to the chef: "Fire is an essential element for cooking – because of fire, cooking has evolved over the years".



Map of the territory (not to scale)
November 2000


SAGUENAY / LAC-ST-JEAN
St-Félicien
St-Prime
Roberval
Alma
St-Bruno
Métabetchouan-Lac-à-la-Croix
Desbiens
Larouche
Jonquière
Chicoutimi
Dubuc
Hébertville-Station
St-André-du-Lac-St-Jean
La Baie
La Tuque
MAURICIE
QUÉBEC
St-Raymond
Pont-Rouge
Charlesbourg
St-Augustin-de-Desmaures
Beauport
Québec
Donnacona (prison)
Deschambault
Lévis
St-Romuald
Portneuf
Donnacona
St-Nicolas
St-Étienne-de-Lauzon
St-Lambert-de-Lauzon
St-Flavien
Ste-Marie
Vallée Jonction
Beauceville
St-Georges
St-Georges
Lac-à-la-Tortue
St-Narcisse
Grand-Mère/Shawinigan
Ste-Anne-de-la-Pérade
St-Maurice
St-Maurice
St-Étienne-des-Grès
Pointe-du-Lac
Trois-Rivières
Yamachiche
Bécancour
Nicolet
St-Grégoire
Louiseville
LAURENTIDES
Mont-Tremblant
Ste-Agathe
Ste-Adèle
St-Félix-de-Valois
Berthierville
Lanoraie-d'Autray
Joliette
Crabtree
Prévost
Laurentides
St-Alexis
L'Assomption
St-Jérôme
Mascouche
Mirabel
Terrebonne
Terrebonne
Lachute
Grenville
Mirabel (Les Serres)
Boisbriand
Oka
Lachenaie
Pétromont
Plessisville
Princeville
N-D-du-Bon-Conseil
Victoriaville
St-Joachim-de-Courval
Warwick
Sorel
Tracy
St-Antoine-de-Lavaltrie
St-Guillaume
Drummondville
Kingsey Falls
St-Edmond-de-Grantham
St-Germain-de-Grantham
Contrecœur
St-Marcel-de-Richelieu
St-Antoine-sur-Richelieu
St-Hélène de Bagot
St-Simon
Upton
St-Hyacinthe
Ste-Julie
St-Damase
St-Liboire
Acton Vale
McMasterville
Rougemont
St-Valérien-de-Milton
ESTRIE
Carignan
Longueuil
Montréal
Asbestos
Marbleton
Valcourt
St-Luc
St-Césaire
Granby
Ste-Marthe
Candiac
Iberville
Marieville
Windsor
East Angus
Waterloo
Vaudreuil-Dorion
Senneville
Léry
St-Philippe
Waterloo (PNGTS)
Brompton (Kruger)
Cookshire
St-Polycarpe
St-Clet
Salaberry-de-Valleyfield
Beauharnois
L'Acadie
St-Jean-sur-Richelieu
Ste-Brigide-d'Iberville
Shefford
Bromont
Stukely Sud
Bromptonville
Les Coteaux
Coteau-du-Lac
St-Rémi
St-Mathieu
Farnham
Brigham
Sherbrooke
St-Étienne-de-Beauharnois
Ste-Martine
St-Alexandre
Cowansville
Magog
Lennoxville
Rivière-Beaudette
St-Louis-de-Gonzague
Napierville
Ste-Anne-de-Sabrevois
Ascot
Waterville
Ormstown
Bedford
Rock Forest
St-Sébastien
MONTÉRÉGIE
Huntingdon
Coaticook
MAINE
Philipsburg
North Country Gas Pipeline
Vermont Gas Systems
East Hereford
Portland Natural Gas Transmission System
NEW YORK
VERMONT
NEW HAMPSHIRE

Mission

Gaz Métropolitain transports and distributes natural gas in Québec and in the northeastern portion of North America. It also sells goods and services ancillary to its main activity. It makes use of its know-how to pursue activities that are related or similar to its core business.

Objective

Gaz Métropolitain's financial objective is to provide its Partners with a stable, predictable return, accompanied by growth in value over the years. From a business perspective, the Partnership intends to provide its customers with high-quality energy services at the lowest possible cost, through policies and programs aimed at motivating its employees and business partners.

The Partnership

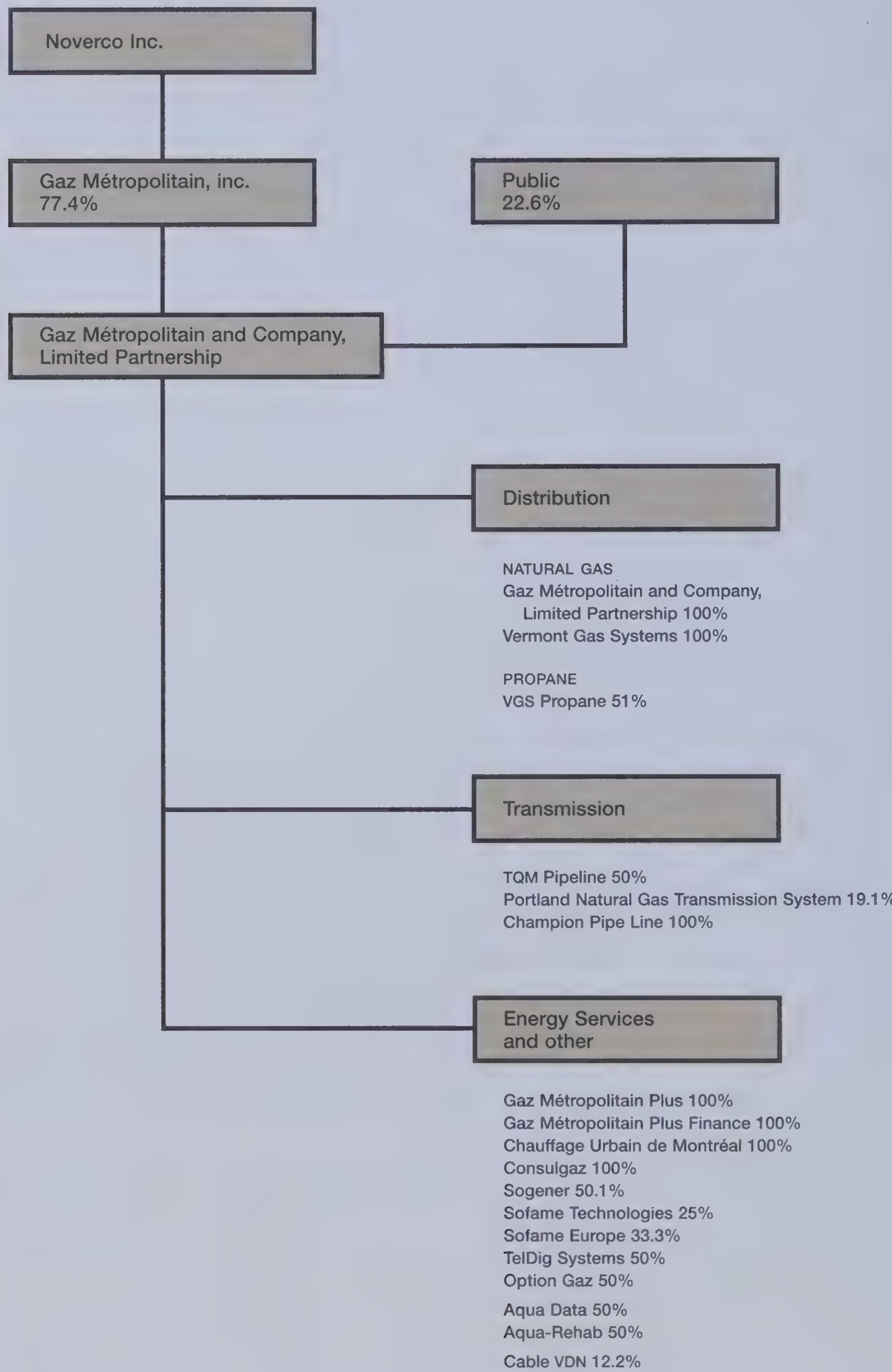
Gaz Métropolitain's core business is the distribution of natural gas. The Partnership delivers approximately 97% of the natural gas consumed in Québec. Vermont Gas Systems, Inc., a wholly-owned subsidiary, is the sole gas distributor in Vermont. Through a subsidiary, Vermont Gas is also one of the major propane distributors in the State.

Gaz Métropolitain also owns significant financial interests in two natural gas transmission companies, including a 50% interest in TQM Pipeline and Company, Limited Partnership, which operates a gas pipeline that connects upstream with that of TransCanada PipeLines and downstream with that of Portland Natural Gas Transmission System. The pipeline owned by PNGTS, in which Gaz Métropolitain holds a 19.1% interest, originates at the Québec border and extends to the suburbs of Boston. In addition, a wholly-owned subsidiary of the Partnership operates two gas pipelines that cross the Ontario border to supply Gaz Métropolitain's distribution system in Northwestern Québec.

These activities and major ownership interests generate 99% of the Partnership's consolidated income. In addition, the Partnership sells goods and services, through subsidiaries and affiliates, in the energy-related business and underground utility systems.

GAZ MÉTROPOLITAIN CORPORATE STRUCTURE (SHORT FORM)

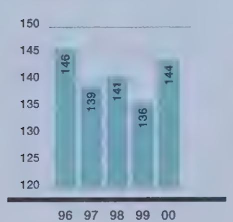
As at 30 September 2000



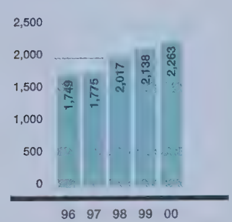
Years ended September 30	2000	1999
CONSOLIDATED FINANCIAL INFORMATION (in millions of dollars)		
Revenues	$ 1,634	$ 1,339
Gross margin	$ 533	$ 498
Partners' income	$ 144	$ 136
Total assets	$ 2,263	$ 2,138
Long-term debt including current portions	$ 1,193	$ 1,094
Partners' equity	$ 806	$ 797
Capital expenditures and deferred charges	$ 139	$ 235
Authorized annual return on Partners' equity attributed to gas distribution in Québec	9.72%	9.64%
Credit ratings in respect of Québec distribution activities:		
Long-term bonds (CBRS/DBRS)	A+/A	A+/A
Commercial paper (CBRS/DBRS)	A-1/R-1(low)	A-1/R-1(low)
PER UNIT DATA (in dollars)		
Partners' income	$ 1.30	$ 1.25
Operating cash flows (including working capital)	$ 1.72	$ 2.27
Distributions	$ 1.24	$ 1.25
Partners' equity (as at September 30)	$ 7.30	$ 7.21
Number of units outstanding (as at September 30 – in millions)	110.5	110.5
Approximate number of Partners[1] (as at September 15)	26,900	23,700
Market prices:		
High	$ 17.00	$ 18.85
Low	$ 13.40	$ 16.30
Close–Toronto Stock Exchange	$ 15.60	$ 17.00
Public ownership (as at September 30)	22.6%	22.6%
CONSOLIDATED OPERATING DATA[1]		
DISTRIBUTION SECTOR		
Gas deliveries:		
In millions of cubic meters (10^6m^3)	6,348	6,123
In billions of cubic feet (Bcf)	224	216
Length of pipelines (km)	9,603	9,308

(1) Unaudited data.

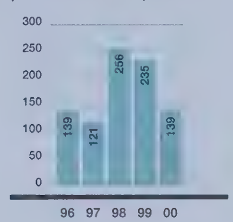
PARTNERS' INCOME
(in millions of dollars)



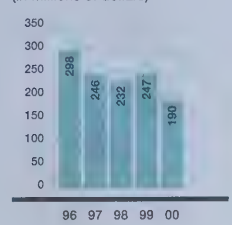
TOTAL ASSETS
(in millions of dollars)

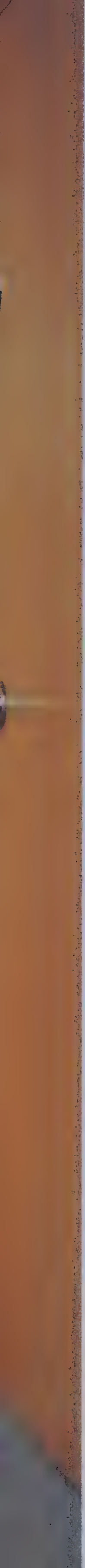


CAPITAL EXPENDITURES
AND DEFERRED CHARGES
(in millions of dollars)



CASH FLOWS PROVIDED
BY OPERATIONS
(in millions of dollars)





2000 – A Pivotal Year

At Gaz Métropolitain, we like to believe that the year 2000 will be remembered not only as ushering in the new millennium but also as a turning point in the culture of the Partnership. Following a hard look at the way we do business, the organization is now firmly committed to change, with the objective of better responding to customer needs and investor expectations, while preserving the loyalty and motivation of its personnel.

A few brief comments about the results for the past year are followed by a description of some of the initiatives under way to effect the desired changes. And here is a symbol of this change in era which took place in 2000: while the few remaining kilometres of a cast-iron pipeline system built in Montréal as far back as 1837 were being eliminated, details about our more than 8,000 kilometre Québec system were being provided on our Internet site – city by city, street by street, home by home.

2000 Results

Every year, the Partnership distributes virtually all of its income to the Partners. Accordingly, $1.24 per unit, i.e. $137.0 million, was distributed in advance during the 2000 fiscal year. Actual results for the year ended September 30 report Partners' income of $1.30 per unit, i.e. $143.7 million. Given the nature of the Partnership's activities, the territory in which it operates and regulatory constraints, these results, which are up by 5.9% over the previous year, will, we hope, satisfy the Partners' expectations.

As in prior years, the bulk of the income is earned by the natural gas distribution activity, primarily in Québec. In spite of a constant deterioration in the competitive situation during the year, and leaving aside the effects of temperatures, total deliveries in Québec were ahead of our objectives. We are particularly proud that sales (normalized for temperatures) reached the 100 billion cubic feet level for the residential, commercial, institutional and small industrial markets which, because they are less volatile than the large industrial market, are the mainstay of an energy distributor. As a result of our efforts and a favourable economic context, and once again excluding the effects of temperatures, deliveries in these markets have increased by almost 12% in three years.

Of particular note is the effort devoted to the single-family new homes market, primarily those equipped with a central heating system. Our recent return to this market, which was previously the exclusive domain of electricity, establishes the reputation of natural gas, which in turn spills over into other markets and has an influence on energy

Photograph: Left – Robert Tessier, President and Chief Executive Officer.
Right – Robert Parizeau, Chairman of the Board.

choices. The presence of natural gas can be seen particularly in the hundred or so housing projects where developers are proud to have Gaz Métropolitain as their partner.

Provided economic conditions remain the same and the competitive position does not deteriorate any further, the new sales figures for the year give every reason to believe that deliveries in Québec in the residential, commercial, institutional and small industrial markets will continue to increase during the 2001 fiscal year. The connection of 3,100 new customers during the past year hit a record not attained since 1994.

The sustained performance of Vermont Gas' natural gas distribution activity is also worthy of mention. A member of the Gaz Métropolitain group for almost 15 years, Vermont Gas now serves some 33,000 customers in the greater Burlington area, with an average annual growth of more than 4%. In spite of significant increases in natural gas prices over the past two years, Vermont Gas' rates leave it in a favourable competitive position, particularly in relation to electricity.

Income from the natural gas distribution activity was up 8.4% over 1999 and contributed 91.3% of the Partnership's consolidated income. The second-largest contributor is the natural gas transmission sector, which accounted for 8.4% of 2000 consolidated income, basically through ownership interests in TQM Pipeline and Portland Natural Gas Transmission System. After making major investments in the 1998 and 1999 years, TQM undertook a rationalization of its operations, whereas PNGTS continued its market development activities. Income earned by the transmission sector in 2000 is practically the same as for the preceding year.

Income earned from energy services and other activities or ownership interests is down from the preceding year, primarily on account of a corporate reorganization involving the creation of Gaz Métropolitain Plus, which devotes all its efforts to energy services other than the distribution of natural gas.

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In previous communications, we have provided information about a Total Quality initiative which, in fact, encompasses all the initiatives undertaken to make a significant improvement in every aspect of Gaz Métropolitain's performance, primarily in the quality of customer service and in increasing the value of the Partners' investment. As has already been indicated, and as can be seen from the following summary of the main initiatives undertaken, 2000 should be a turning point:

— **ISO 14001 registration.** Gaz Métropolitain's environmental management performance has been recognized and makes it the first natural gas utility in Canada to receive this registration.

— **Quality initiative.** Le Mouvement québécois de la qualité has developed a progressive and continuous quality management assessment and certification system based on the approach used in the United States for the Malcolm Baldridge National Quality Award. In addition to an organization's financial and business results, the QUALI*metre* makes it possible to assess, among other things, the thoroughness with which an organization measures and manages its processes. At Gaz Métropolitain, it will become one of the main indicators in the march to excellence.

— **Creation of Gaz Métropolitain Plus.** In the past, service technicians would perform both regulated or unregulated activities, such as service calls for maintenance of equipment. In order to better respond to customer needs, these activities have been separated. From now on, Gaz Métropolitain Plus personnel will look after the sale, leasing and maintenance of natural gas appliances.

— **Enterprise Resource Planning system.** With this major project, we will kill two birds with one stone: first, a review of business processes in light of best industry practices and, second, implementation of a modern management information system that will make it possible to integrate business processes, which will result in greater productivity and improved customer service.

— **Personnel reduction.** Management's objective is to reduce the number of positions in Gaz Métropolitain by more than 10% over the next three years, i.e. the time required to implement the Enterprise Resource Planning system. Early retirements and voluntary departures have already been planned.

— **New regulatory framework.** From now on, and in principle for the next five years, Gaz Métropolitain will be able to retain a share of the productivity gains it generates as a performance incentive. Up to now, productivity gains were cancelled every year, with the exception of end-of-year overearnings, which were shared between the Partnership and the customers.

The Total Quality initiative is, by definition, a call to over-achievement. Accordingly, there will be heavy demands on the Partnership's personnel over the next few years. We would like to congratulate our employees for the past year's results and thank them for the way they have tackled the quality initiative.

Business Development

The major development initiative is the construction of a gas pipeline that would give our customers access to natural gas produced in the Sable Island region off Nova Scotia. The project pieces appear to be falling into place without any opposition, on the contrary. The infrastructure would require a gas pipeline, composed of two sections, that would link Fredericton, New Brunswick to Saint-Nicolas, Québec. Gaz Métropolitain has already expressed interest in constructing and operating the section in Québec, in all likelihood with one or more partners.

Another business development, although on a smaller scale, is the acquisition by the Partnership of a 12.2% interest in a Montréal company that builds and operates a fibre optics network. We have identified mutual interests in working with certain customers to provide our respective services. In addition, fibre optics networks, like that of Cable VDN, appear destined to become as essential as energy distribution systems. The investment comprises $2.0 million in cash plus a $3.0 million loan in the form of debentures which, if converted, would bring the Partnership's interest to 20%.

Outlook for 2001

Within the next few months, the Régie de l'énergie will render its decision on the rate case for the fiscal year that began on October 1. Because the effects of the new performance incentive mechanism had to be incorporated, the case could not be filed with the Régie earlier. Nevertheless, in our view, the 2001 Partners' income from the natural gas distribution activity in Québec should be at least equal to last year's. As a result, and in light of the importance of this activity to the Partnership, the Board of Directors has increased the income distribution to the Partners to $0.32 per unit, effective January 1, 2001.

Change in Board of Directors

The Board of Directors of Gaz Métropolitain wishes to express its thanks to Claude Mandil, now President of the Institut français du pétrole, who served as Gaz de France's representative on the Board for nearly two years. Today, the Board welcomes his successor, Michel Maruenda, Deputy Executive Vice President, Gas Distribution Division, EDF GDF Services.

Gaz Métropolitain, inc.
in its capacity as General Partner
November 15, 2000

Robert Parizeau
Chairman of the Board

Robert Tessier
President and Chief Executive Officer

RENÉ BÉDARD
Corporate Secretary

STÉPHANE BERTRAND
Vice President, Communications, Public and Governmental Affairs

ANDRÉ BOULANGER
Vice President, Sales–Marketing

SOPHIE BROCHU
Vice President, Business Development and Gas Supply

JACQUES CHARRON
Vice President, Human Resources and Technology Development

PIERRE DESPARS
Vice President, Corporate Affairs

ANDRÉ GOUGEON
Vice President, Energy Services

RICHARD LASSONDE
Vice President, Legal Affairs

LUC SICOTTE
Vice President and Chief Financial Officer

MICHEL VEILLETTE
Vice President, Operations

Distribution

A NATURAL EVOLUTION

MARKETING

In Québec, natural gas is now synonymous with comfort and quality of life. Why? The Partnership's advertising and promotional campaigns have been so successful that, today, natural gas has become a "must" for both cooking and home heating. Participation in various trade shows such as the National Home Show in Montréal and Expo habitat de Québec has enabled the Partnership to enhance its reputation and promote natural gas. Through daily newspapers, weekly regional publications, billboard advertising, mailings, home and decor magazines, and radio and television, Gaz Métropolitain has been able to reinforce the positive image its customers have of natural gas and persuade potential customers to opt for this form of energy. For a number of years, in addition to the use of the so-called traditional media, the Partnership has made a top-notch Internet site available to all its target customers. In 2000, there were more than 16,000 visits on average to www.gazmetro.com every month.

As potential customers in the commercial, institutional and small industrial sectors have profiles and interests that are markedly different from the general public, the Partnership uses a focused marketing strategy to attract them. In particular, the past year was characterized by a marketing offensive in the restaurant business. The Partnership conducted an advertising campaign directed at restaurant franchisors and became better known through its sponsorships of various events relating to the food service industry.

The Partnership's approximately 20 representatives who deal exclusively with the large industrial market continued to provide personalized service to their customers throughout the year, enabling the Partnership to respond more quickly to their expectations and needs.

Over the past year, the Partnership completely revised the selection criteria for its Gaz Métropolitain Certified Partner program. The plumbing and heating contractors who are members are now carefully chosen based on their ability to provide natural gas appliance installation service that is beyond reproach. The performance of certified partners is also reviewed on a regular basis to ensure they still meet the quality criteria.

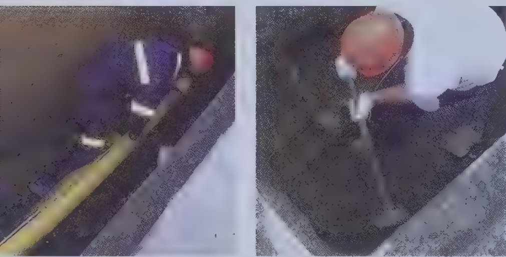
This past year, Gaz Métropolitain supported the development of a new energy management system (computerized control system) for the restaurant industry. La Cage aux sports and les Rôtisseries St-Hubert, two major franchisors in Québec, were excited about the product and installed it in a number of their restaurants.

NEW SALES

In 2000, the number of new residential customers in Québec reached 2,300, a 67% jump over the preceding year. Although modest in absolute terms, the number of new residential customers is practically three times greater than the average for the past few years. During the past year, the 100th all-gas housing project was built, which is testimony to the popularity of natural gas with real estate developers. Vermont Gas acquired 1,264 new customers in 2000, bringing its total to 32,721 customers. This does not include about 9,000 customers who use propane.

In the commercial market, which includes institutional and small industrial customers, new sales exceeded 138 million cubic metres on an annual basis, primarily because of the favourable economic context. In the large industrial market, new sales totalled approximately 32 million cubic metres, virtually all of which came from additional deliveries to existing customers.

Gaz Métropolitain's pipeline system grew by approximately 282 kilometres during the 2000 fiscal year, primarily to serve new customers in farming areas. The biggest projects were carried out in the Lac-St-Jean, Lanaudière and Montérégie-Eastern Townships regions with extensions of 45 kilometres, 75 kilometres and 80 kilometres respectively thanks, among other things, to a $14 million contribution from the government of Québec. A contribution from the government or from a customer does not increase the income of the Partnership, which is remunerated only on its net investment.



The year 2000 marked the last step in eliminating some 1,500 kilometres of cast-iron pipes. The total project cost nearly $190 million.

The Partnership has just completed its program to eliminate cast-iron pipes that were still used in certain neighbourhoods on the Island of Montréal. This type of pipe required significant monitoring and maintenance costs. In addition, the Partnership undertook a program to replace 20 kilometres of aluminum pipes that were installed as a pilot project in 1987. This should be completed in the next fiscal year. And lastly, 3,100 new customers were connected to the system during the period.

Reliability and safety – two important attributes of Gaz Métropolitain's system. The system monitoring and maintenance programs developed by the Partnership comply with the best practices and the highest standards in the industry. Every year, the Partnership makes a point of achieving the preventive maintenance objectives for its system.

To ensure the safety of its customers and the general public, the Partnership continued its efforts to reduce the number of third-party breaks, which are the cause of the vast majority of gas leaks. To accomplish this, the Partnership worked closely with contractor associations and regulatory authorities. In addition, the property owners' awareness program, for properties where Gaz Métropolitain's lines are located, continued throughout the past year. Gaz Métropolitain also set up committees to improve risk management, the education and training of personnel, the quality of emergency interventions and the restoration activities following an incident.

Economic growth, temperatures, and the prices of various competing energies are three factors beyond the Partnership's control which affect natural gas deliveries. In 2000, Gaz Métropolitain enjoyed the benefits of a strong economy that grew by 4.1%. This growth, primarily due to domestic demand, was very profitable for the Partnership, since 89% of deliveries are made to the industrial and commercial sectors.

Over the past year, the energy context within which the Partnership operates was among the most turbulent ever seen. The price billed customers for system gas jumped by 67% from $3.22 per gigajoule in October 1999 to $5.38 per gigajoule in September 2000. The projected bringing into service of the new Alliance and Vector pipelines, which will be able to deliver to Ontario Canadian natural gas that has transited the United States, the increased demand for natural gas to produce electricity in the United States, the tightening of productive capacity in North America over the past few years, and the lower-than-normal storage levels have all contributed to higher natural gas prices. This did, however, induce producers to intensify drilling activities. Production should therefore rise over the next few months, which should lower the price.

Higher prices for petroleum products have limited the deterioration in the competitive position of natural gas. In fact, during the past year, fuel oil prices reached their highest levels in ten years. The price for West Texas Intermediate, the benchmark for crude oil, jumped nearly 45%, from US$22.64 in October 1999 to US$32.88 in September 2000, which led to equivalent increases in the prices of heavy and light fuel oils.

Even though Hydro-Québec's rates remained unchanged during the 2000 fiscal year, natural gas continued to provide an economic advantage over electricity in all markets, with the exception of homes that are not equipped with modern appliances.

DELIVERIES AND FINANCIAL RESULTS

Although warmer than normal, temperatures that were cooler than in 1999 contributed to the 3.7% increase in total deliveries in Québec and Vermont. In 2000, 6,348 million cubic metres of natural gas were delivered compared to 6,123 million cubic metres in the preceding year. For the first time in its history, in spite of a tough competitive situation, and leaving aside the effects of temperatures, the Partnership sold an all-time high of more than 100 billion cubic feet (2.8 billion cubic metres) of natural gas to its commercial and residential customers.

Deliveries in Vermont by the Vermont Gas Systems subsidiary represent 4.1% (258 million cubic metres) of the Partnership's total deliveries. VGS Propane delivered 8.2 million U.S. gallons of propane to its customers in Vermont.

In the industrial market, the 1.7% increase in deliveries is attributable to greater consumption by customers on interruptible service. There was also a substantial 6.7% increase in deliveries to commercial and residential customers in 2000 compared to 1999.

Income for the distribution sector was up by $10.7 million, to $135.2 million. Considering that the increase in the rate of return authorized by the Régie de l'énergie, from 9.64% to 9.72%, contributed less than $1 million to the $10.7 million increase, this is an impressive performance.

Last year, Gaz Métropolitain's system grew by 282 km. A number of municipalities, including Saint-Edmond-de-Grantham, will now be able to enjoy the benefits afforded by natural gas.

REGULATORY AFFAIRS

QUÉBEC

Gaz Métropolitain's new performance incentive mechanism, which is the result of an agreement negotiated with representatives of the Partnership's customers and the general public, became effective on October 1, 2000, in principle for a five-year period.

Comprehensive in nature and covering a number of years, the new regulatory framework will reward the Partnership for planning the effective management of its assets, exercising tight control over costs and generating a higher return on investments. Customers and unit holders will benefit from this new mechanism.

The new framework will encourage the Partnership to be more productive. From now on, Gaz Métropolitain's performance will be measured, before the beginning of the fiscal year, by comparing the rates required to cover projected costs with rates that would be indexed to consumer prices, less 0.3%. Any favourable variances, considered productivity gains, will be shared in a ratio of 47.5% for customers and 52.5% for the Partnership as an incentive return on equity. This incentive, which, in theory, could be maintained for five years, is conditional on the attainment of set objectives for service quality indicators. Should authorized rates still generate overearnings, as determined after the end of a fiscal year, customers would recover the greater portion, i.e., 66⅔%.

The productivity gains calculation will not include items that are beyond the control of the distributor, e.g. interest rates, temperatures, costs of transporting gas from the point of acquisition to Gaz Métropolitain's system, and the storage cost of volumes required to meet peak period demand. The mechanism includes provisions for a review under certain circumstances, in particular if no incentive return is realized over a three-year period, or if the incentive is 400 basis points greater than the authorized rate of return for two consecutive years.

The agreement, approved by the Régie de l'énergie on October 5, 2000, provides for the creation of an energy efficiency fund that will be used on a priority basis for innovative initiatives at current and potential customer locations. Funding will come out of the customers' share of productivity gains.

For the next three years, the base rate of return on equity allocated to the distribution activity will continue to be set by the Régie de l'énergie, in accordance with an automatic adjustment formula. The new rate reflects 75% of the variance in August each year in the forecast rate of return on 30-year Canada bonds. Accordingly, based on a forecast 5.87% rate of return for 30-year Canada bonds during the year, the base rate of return on equity will be 9.60% for the 2001 fiscal year, compared with 9.72% for the past year.

The Partnership expects to file its rate application for the 2001 fiscal year around mid-December, retroactive to October 1, 2000. In addition, a proposal for unbundling rates so that customers will be able to more clearly identify costs relating to transmission, load balancing and distribution services provided by the Partnership, and possibly purchase some of those services from suppliers of their choice, was filed on July 7, 2000, and should be reviewed by the Régie in November 2000.

VERMONT

The regulatory framework in Vermont includes certain features that set it apart from Québec. Among others, in addition to transmission and distribution, Vermont Gas' rates include the commodity. Consequently, because of the increase in the price of natural gas, Vermont Gas had to request a firm service rate increase. In spite of this increase, the competitive position of natural gas in Vermont is still very strong, particularly compared to electricity.

GAS SUPPLY

The Partnership is responsible for purchasing the gas supply required by a customer unless the customer indicates otherwise. Large consumers, e.g. large industrial customers and certain commercial customers prefer to look after their own needs. In 2000, 59% of volumes were purchased directly by customers from suppliers of their choice.

The transmission of natural gas between the point of origin and Gaz Métropolitain's territory is basically the responsibility of the Partnership. A portfolio strategy has been developed to diversify geographic sources, as well as the means of transmission and storage, and to vary contract maturities.

The bringing into service in the fall of 2000 of the Alliance and Vector gas pipelines will mark the end of TransCanada PipeLines' monopoly. Accordingly, when certain TCPL transmission contracts expire, the Partnership may decide to get its natural gas supply from regions where market conditions are more favourable.

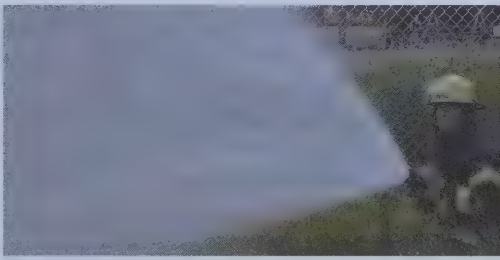
The Partnership has made significant progress in the project to connect its distribution system to the Sable Island gas basin off Nova Scotia. Management has concluded various agreements in principle that would make it possible to construct a gas pipeline linking the TQM Pipeline system, on the south shore of Québec, to an extension of the Maritimes & Northeast pipeline that would extend to the Québec/New Brunswick border. The Partnership intends to present the parameters of the project in mid-December 2000 to its customers and to the Régie de l'énergie, which will have to render a decision on the transmission and supply contracts in the spring of 2001. The project will have to be approved by the National Energy Board and, if everything goes as planned, the Partnership expects to receive gas from the East Coast of Canada in November 2004.

During the 2000 fiscal year, a new contract was concluded with Union Gas for underground storage in Southwestern Ontario; it covers 390.9 million cubic metres out of a total of 600.6 million cubic metres under contract. It should be approved soon by the Ontario regulatory body. In particular, the contract provides for staggered expirations, thereby making it possible for the Partnership to take advantage of potentially less expensive storage alternatives, where appropriate. The Partnership has also used swaps to supplement storage requirements. These transactions will provide the Partnership with greater flexibility to adequately meet its customers' needs in peak periods.

HUMAN RESOURCES

In connection with the Total Quality initiative, which is intended to introduce a more "business-oriented" culture, focused on customer satisfaction, considerable efforts have been made throughout the organization to implement an Enterprise Resource Planning system. A number of administrative units have undertaken major changes in the organization of their work and the structure of their teams in order to free up the resources required for the project, while ensuring that operations continue to run smoothly during the transition period which, in certain cases, will take a little more than three years.

It goes without saying that the success of the quality initiative will require everyone to contribute. For this reason, buoyed by the full cooperation of the three unions with respect to the Y2K transition, the Partnership has increased discussions in order to establish a solid partnership between management, union representatives and all its personnel. A partnership agreement has been finalized with the hourly employees' union and steps are continuing to conclude similar agreements with office personnel and sales representatives. The transfer of approximately 40 technicians to the new Gaz Métropolitain Plus subsidiary was made possible because of the partnership mentality that exists between the Partnership and the union that represents them. Unfortunately, the proposed transfer of office personnel resulted in litigation before the Bureau du commissaire général du travail.



Every year, more than 1,500 firefighters attend the École de technologie gazière, which is recognized for its unique expertise in natural gas and propane safety training.

Gaz Métropolitain expects quality not only from its employees but also from its external business partners. Accordingly, the Partnership has invested significant resources to ensure proper training for the certified partners' personnel, as well as for the numerous individuals involved with public safety. The quality of the training provided by the École de technologie gazière to fire departments and the ministère de la Sécurité publique du Québec has largely contributed to its reputation and credibility. Gaz Métropolitain's training centre is now considered a reference in matters of safety and an important partner of the École nationale des pompiers. The expertise of the Partnership's training centre also contributed to the review of emergency intervention procedures followed by Gaz Métropolitain teams, as well as to the ISO 14001 project.

Transmission

To meet the continuously growing needs of the Québec and U.S. northeastern markets, TQM Pipeline, in which the Partnership holds a 50% interest, operates a gas pipeline in Québec that connects upstream with the TransCanada PipeLines system and downstream with Portland Natural Gas Transmission System. TQM's system covers approximately 572 kilometres and supplies 61.4% of the volumes required by the Partnership in Québec, with the balance coming directly from the TCPL system. In 2000, to supply PNGTS, TQM built a high-performance compressor station at East Hereford at the U.S. border. Put into service in December 1999, this compressor station made it possible for TQM to achieve a new record for deliveries on the day of February 7, with 21.3 million cubic metres, i.e. 4 million cubic metres more than the previous record. For the 12 months ended September 30, 2000, the first full year of operation for PNGTS, TQM's deliveries were up by 23.7%.

On the U.S. side, the bringing into service in March 1999 of the PNGTS pipeline, in which Gaz Métropolitain holds a 19.1% interest, enabled PNGTS to position itself favourably in order to take advantage of the emerging electricity cogeneration market. Current long-term contracts represent an annual volume of 1.7 billion cubic metres of natural gas, i.e. nearly 60% of the actual gas pipeline capacity.

Champion Pipe Line, a wholly-owned subsidiary of the Partnership, operates two gas pipelines that cross the Ontario border to supply distribution systems in a number of towns in Northwestern Québec. During the past year, it transported more than 124 million cubic metres of natural gas.

Energy Services and Other

Through its subsidiaries and affiliates, the Partnership carries on activities other than the distribution and transmission of natural gas. These activities include energy services, water, and fibre optics. In view of the number of subsidiaries and affiliates, highlights about the activities of only a few of them are described below.

In September, Gaz Métropolitain announced the creation of Gaz Métropolitain Plus, a new company to serve new consumer needs.

ENERGY SERVICES

GAZ MÉTROPOLITAIN PLUS

Created last June, Gaz Métropolitain Plus, with its specialized personnel and network of certified partners, provides high-quality integrated energy products and services that meet the needs of its gas clientele in Québec. Gaz Métropolitain Plus, a wholly-owned subsidiary, is devoted exclusively to the Partnership's unregulated energy services activities which include, among others, the maintenance, sale and leasing of natural gas appliances. These activities were previously looked after by the Partnership.

Gaz Métropolitain Plus' service policy provides for extended hours during the week, from 7:00 a.m. to 9:00 p.m., and on Saturday from 7:00 a.m. to 5:00 p.m. It also has a 24-hour, seven days a week emergency service for its customers. Gaz Métropolitain Plus intends to meet the challenge of providing its customers with quality products and service.

CORPORATION DE CHAUFFAGE URBAIN DE MONTRÉAL

CCUM, a subsidiary of Gaz Métropolitain, provides a number of large buildings in downtown Montréal with steam as well as hot and chilled water for heating and air conditioning. The 390,000 pounds per hour (100 thermal megawatts) thermal power station is equipped with four boilers using natural gas or heavy fuel oil.

In 2000, CCUM produced and delivered some 525 million pounds of steam, i.e. 6.9% more than in the preceding year. In the past year, the CCUM system was enlarged and diversified. Since May 2000, following an investment of nearly $3.5 million, the CCUM system has been supplying a building in the new "Cité du Multimédia" with hot water heating and chilled water air conditioning. On October 1, 2000, Gaz Métropolitain transformed Corporation de Chauffage Urbain de Montréal into a limited partnership under the name Climatisation et Chauffage Urbains de Montréal.

SOGENER

Sogener, a subsidiary in which Gaz Métropolitain holds a 50.1% interest, provides property managers of industrial, commercial, institutional and apartment buildings with a full range of energy services, from the mechanical maintenance of systems to taking charge of a customer's overall energy needs. The Company's business plan is increasingly focused on the development of the industrial market, e.g. turnkey boiler installations.

SOFAME TECHNOLOGIES

A world leader in direct-contact water heating technologies, Sofame Technologies owns the exclusive manufacturing and distribution rights of a patented system developed in collaboration with business partners such as the Natural Gas Technologies Centre, Gaz Métropolitain, Gaz de France, and Brooklyn Gas of New York. Incorporating the direct-contact technology, whereby water is vaporized directly over the boiler flame, Sofame's products provide an extremely economical source of heating and hot water, in addition to major reductions in greenhouse gas emissions.

Over the past year, Sofame, through its subsidiary, Sofame Europe, completed the installation of a Percotherm on the methane terminal site of Gaz de France at Montoir in Brittany. The project was a great success and opens the door to the development of the European market. In October 2000, Sofame was honoured with the Énergia award from the Association québécoise pour la maîtrise de l'énergie in the Product Supplier Category for its ultra-efficient hot water heater installed in the Centre de formation professionnelle Neufchâtel.

WATER

Water management often made headlines in Québec and the rest of Canada in 2000. Publication of the BAPE (Bureau d'audiences publiques sur l'environnement) report on water management, higher drinking water standards in Québec, the Walkerton tragedy in Ontario, the introduction of the Québec infrastructure program and the soon-to-be announced Canada/Québec infrastructure program are all contributing factors to much agitation in government and municipal circles in this regard. Québec's needs in terms of modernizing and rehabilitating its water systems are estimated at more than $1 billion per year for the next 15 years.

Gaz Métropolitain has been interested in the water sector for a number of years and took concrete action in 1999 when it acquired significant interests in two Québec firms specializing in the field: Aqua Data and Aqua-Rehab. The Partnership's long-term business strategy is to capitalize on the synergies, the complementarities, and the sharing of expertise between water services and gas distribution. These two public services often share the same underground corridors and are faced with very similar operational problems, be it flow and system management, pipeline maintenance and rehabilitation or customer service.

AQUA DATA

Aqua Data, in which Gaz Métropolitain holds a 50% interest, is a service company operating in the field of computerized diagnoses of drinking water distribution systems and domestic and industrial wastewater collection systems. The technology it has developed and marketed since its inception is used today by cities, municipalities, businesses and others to repair drinking water and wastewater infrastructures.

AQUA-REHAB

Aqua-Rehab is a leader in water system maintenance, rehabilitation and intervention. The company, in which Gaz Métropolitain holds a 50% interest, is recognized for the efficiency, economy and durability of its pipeline rehabilitation techniques that do not require trench excavation.

The telecommunications sector, particularly the installation of fibre optic infrastructures, is growing rapidly. Because of its expertise in underground transportation and distribution systems, Gaz Métropolitain moved into the new economy by acquiring a 12.2% interest in Cable VDN, a Montréal company that builds and operates a high-capacity intramunicipal fibre optics network.

This alliance will enable both companies to jointly promote their services and continue to grow. VDN Cable provides its residential and commercial customers with a wide range of services (cable TV, Internet, data transmission, remote monitoring and other multimedia services) at competitive prices.

Other Activities

The quality initiative, better known as the Total Quality challenge, aims to make the Partnership a top-performing business recognized for the quality of its customer service. To achieve its quality objectives, the Partnership has set up the Quality Division, which is responsible for coordinating and supporting quality improvement efforts.

More specifically, a Quali*metre* program has been initiated. This is a progressive, ongoing self-assessment and accreditation process with respect to quality management. It is administered by the Mouvement québécois de la qualité and is based on the approach followed for the Malcolm Baldridge National Quality Award in the United States. The QUALI*metre* assessment grid provides assistance in analyzing all facets of an organization's management, regardless of its field of activity or size. In February 2000, 45 managers participated in the Partnership's first self-assessment exercise, which produced a result of 235 points. This rating is within the average for an organization that undertakes a quality initiative. Other assessment exercises will be carried out to measure progress and the Partnership will undergo an independent assessment towards the end of 2003, with the objective of obtaining a rating of 500 points. The rating for an organization in which quality management is well established is around 500 points, out of a theoretical maximum of 1,000 points.

As the quality initiative involves a review of all business processes, the computer systems have to be included. During the past year, a study to assess the benefits of the Partnership's setting up an Enterprise Resource Planning system was completed, with a recommendation to proceed. The project was launched last September and will be carried out in two phases. Implementation of the administrative functions, including finance, procurement, maintenance and human resources, is to be completed by September 30, 2001. This will be followed by customer functions, which should be completed in 2003.

The Environmental Policy, updated in connection with the Total Quality initiative, led the Partnership to review its environmental management system, for which ISO 14001 certification was obtained.

Y2K TRANSITION

As expected, the transition to the new millennium went off without a hitch for the Partnership's customers and its internal operations. The conversion of all computer systems, as well as the implementation of an emergency plan for the critical period, account for the smooth transition for which preparations had started in 1996.

COMMUNICATIONS, PUBLIC AND GOVERNMENTAL AFFAIRS

Gaz Métropolitain continued its efforts to increase awareness among municipalities and journalists about the operations of a natural gas system and the characteristics of this form of energy. The work undertaken with municipalities over the past few years to train firefighters continued during the year and an agreement was concluded with the 9-1-1 emergency service and firefighters to improve emergency response time.

The Partnership also carried out various training and awareness activities to ensure the safety of its system and reduce the number of breaks caused by third parties. In collaboration with the Association des constructeurs de routes et de grands travaux du Québec, the Partnership doubled its efforts to make contractors aware of the importance of setting up training programs. It impressed upon the Commission de la santé et de la sécurité du travail du Québec the necessity for visiting construction sites close to gas infrastructures. In addition, Gaz Métropolitain collaborated with other public service organizations in the production of a videocassette entitled "Attention ! Creuser c'est sérieux", which explains in detail the steps to be taken when digging. And, lastly, a radio campaign to raise general public awareness of the importance of being well informed before digging generated a significant increase in the number of requests for pipeline locations.

The "Petit Cirque Gaz Métro" is a community project for kids attending grades one to six in primary schools in the Hochelaga-Maisonneuve neighbourhood in Montréal. It provides free activities related to the world of the circus and the theatre.

The Partnership continued to maintain close relations with the various levels of government, in particular, the energy, regional development and the environment sectors. A government of Québec program totalling $25 million over three years was introduced for the extension of the natural gas distribution system to the regions. Furthermore, Gaz Métropolitain and the Fédération québécoise des municipalités du Québec formed a consultative group to deal with the development of new system extensions and other matters of common interest.

Gaz Métropolitain maintains its social commitment to communities in which its system is located. This commitment is expressed through both its financial contributions and the volunteer work of its personnel, e.g., sponsorship of the École Hochelaga-Maisonneuve, the United Way campaign and Christmas fund-raising activities. The Partnership also collaborated with Les ailes de la mode Foundation for a second consecutive year. Funds raised made it possible to create the "Petit Cirque Gaz Métro", which provides activities for underprivileged children and aims at preventing school dropouts.

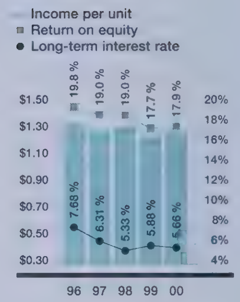
The Partnership's donations, which totalled some $800,000 in 2000, fall into four categories: social and community, health, arts and culture, and education.

Internally, the Communications, Public and Governmental Affairs Department continued to be a catalyst in focusing all members of the organization on common objectives. Targeted communication activities rallied support for the Total Quality initiative, as well as the ISO 14001 project, whose objective was achieved during the year.

HIGHLIGHTS

Results for the year are very positive, particularly for the distribution sector. Sales were up significantly in the commercial and residential markets, reaching the 100 billion cubic feet (2.8 billion cubic metres) level in Québec for the first time, excluding the effect of temperatures. Furthermore, with the addition of 295 kilometres of pipeline during the year, the distribution systems now cover 9,603 kilometres.

Partners' income for the year was up by $7.9 million over the preceding year to $143.7 million, the second highest in the Partnership's history. The high of $145.8 million was recorded in 1996, when the rates of return authorized by the regulatory bodies were some two hundred basis points (2%) higher. The past year's performance is all the more remarkable given the fact that every hundred basis points (1%) of rate of return represents Partners' income in the order of $9.0 million.



For the year ended September 30, 2000, Partners' income per unit is $1.30, compared to $1.25 in 1999.

In addition, the strong performance by the Québec natural gas distribution sector generated overearnings of $6.0 million. In accordance with the current regulatory framework, and subject to the approval of the Régie de l'énergie (hereinafter the Régie), 50% of overearnings should be recorded in income for the 2001 year. The balance will be returned to customers.

REVENUES

Revenues rose by 22.0% to $1.634 billion from $1.339 billion in 1999. This increase is primarily a result of higher prices for natural gas, which is bought on the market and billed at the same price to Québec customers, thereby having no direct impact on the Partnership's results. Furthermore, the TQM-Eastern Townships and PNGTS gas pipelines, which were put into service in 1999, generated additional revenues of $8.9 million. Higher sales in the Energy Services and Other sector as well as the impact of acquisitions made in 1999 contributed additional revenues of $10.7 million.

GROSS MARGIN

Gross margin is $533.4 million for the year. The net increase of 7.2%, or $35.8 million, over the preceding year comes primarily from the Québec distribution activity, with increases in sales, the authorized rate of return and the rate base. The bringing into service in 1999 of the new gas transmission pipelines also contributed to the increase.

EXPENSES

Expenses totalled $389.7 million in 2000, up by $27.8 million from $361.9 million in 1999. The bringing into service in 1999 of the new gas transmission pipelines resulted in an increase in expenses of $9.6 million. Expenses incurred by the companies acquired in 1999 and higher expenses in the distribution sector account for the difference.

Operating and maintenance expenses of $176.1 million are up $11.5 million. Depreciation and amortization of $120.8 million was $14.0 million higher than the preceding year. Interest on long-term debt amounted to $87.5 million, compared to $85.3 million in 1999, reflecting the additional debt load required by the Partnership to support its investments. At $5.3 million, financial and other expenses are almost the same as the $5.2 million incurred in 1999 and represent interest on short-term debt.

PARTNERS' INCOME

Partners' income is $143.7 million compared to $135.8 million in 1999. For the most part, the increase of $7.9 million comes from the Québec distribution activity, which had a higher rate base, an increase in sales as well as a higher authorized rate of return compared to last year. The average number of outstanding units increased by 1.8 million from 108.7 million in 1999 to 110.5 million. Partners' income is up $0.05 to $1.30 per unit in 2000 compared to $1.25 in 1999.

As was reported last year, and in accordance with the current incentive mechanism, the 2000 results include $5.5 million of the $11.1 million overearnings generated in the 1999 year by the Québec distribution activity. In 1999, an amount of $2.8 million was recorded with respect to the previous year's overearnings.

The results for the Québec distribution activity for the year ended September 30, 2000 will be filed shortly with the Régie and will show overearnings of $6.0 million, which should be shared by the customers and the Partners based on service quality criteria. The Partnership will record its estimated $3.0 million share of overearnings allocated to it by the Régie in its results for the 2001 year.

INCOME TAX

Income tax expense is not included in the calculation of Partners' income. Because of the Partnership's limited partnership status, such expense is, in principle, borne by each Partner. The Partnership reached agreement with the tax authorities on harmonizing the rules for calculating income for tax purposes with regulatory accounting principles as much as possible. On average, since 1993, income for tax purposes has exceeded distributions by 5.3% for federal purposes and 4.4% for Québec purposes. Historically, the differences have been as high as +19.4% (unfavourable variance for a taxable Partner) and as low as –18.1% (favourable variance for a taxable Partner). For the year ended September 30, 2000, income for tax purposes exceeded distributions by 15.9% for both federal and Québec purposes. Partners that hold their units in a non-taxable vehicle, such as an RRSP, are in no way affected by the difference between income for tax purposes and distributions received.

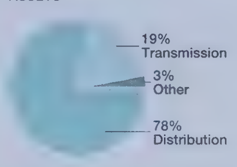
ACTIVITIES BY SECTOR

As described in the note on segmented data (Note 13 to the consolidated financial statements), the Partnership's three sectors of activity are the distribution and transmission of natural gas, and energy services and other activities.

The distribution of natural gas in Québec is the Partnership's core business. The sector includes the natural gas and propane gas distribution activities of the Northern New England Gas Corporation (NNEG) group in Vermont. The natural gas transmission activity includes a 50% interest in TQM Pipeline (TQM) and a 19.1% interest in Portland Natural Gas Transmission System (PNGTS), which operates a gas pipeline in the Northeastern United States. The sector also includes the activities of the Champion Pipe Line Corporation Ltd subsidiary in Québec. The unregulated energy services and other activities include the activities of Gaz Métropolitain Plus Limited Partnership, Gaz Métropolitain Plus Finance Limited Partnership, Corporation de Chauffage Urbain de Montréal and Consulgaz Inc., as well as the investments in Sogener Limited Partnership, Aqua Data Inc./Stelem Inc., Aqua-Rehab Group Inc., Sofame Technologies Inc., Option Gaz Ltée and TelDig Systems Inc.

The Partnership's assets consist mainly of property, plant and equipment used for the distribution of natural gas. Of total assets of $2.263 billion, 78% (77% in 1999) are used in the distribution sector. Transmission activities account for 19% (20% in 1999) of the Partnership's assets, and Energy Services and Other for 3%.

ASSETS



2000 $2.263G

Distribution revenues include the cost of natural gas, which has no impact on the Partnership's results in Québec. Gross margin provides a better indication than revenues of how the Partnership is performing. Natural gas transmission and distribution activities generate 96% of the gross margin, which amounts to $533.4 million. The rates that generate this portion of the gross margin are set by regulatory bodies based on the approved cost of service, including a return on equity employed. Propane distribution is an unregulated activity. Its results, which are relatively immaterial, are included in the distribution sector. Energy Services and Other generated 4% of the Partnership's consolidated gross margin.

The distribution and transmission sectors account for 99% of consolidated Partners' income.

DISTRIBUTION SECTOR

The Partnership delivers approximately 97% of the natural gas consumed in Québec. Vermont Gas Systems, Inc., a subsidiary of NNEG, is the sole gas distributor in Vermont. Deliveries in Vermont in 2000 represent 4.1% of the Partnership's total deliveries.

Warmer than normal temperatures, but cooler than in 1999, resulted in deliveries of 6,348 million cubic metres, compared to 6,123 cubic metres during the preceding year, an increase of 3.7%. If temperatures had been normal in each of the two years, deliveries would have amounted to 6,559 million cubic metres, compared to 6,368 million cubic metres for the fiscal year ended September 30, 1999, an increase of 3.0%.

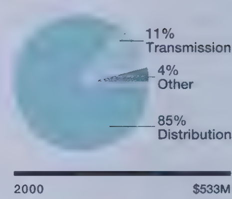
In Québec, the Partnership benefits from a normalization mechanism for its distribution revenues based on normal temperatures. As temperatures were much warmer than normal during the past three years, normalized volumes represented 211.0 million cubic metres in 2000 and 244.5 million cubic metres in 1999.

Industrial customers consumed 3,791 million cubic metres, compared to 3,726 million cubic metres for the preceding year. This increase of 1.7% is attributable to an increase in consumption by customers who have contracted for interruptible service. Contracts for these customers set minimum annual consumption levels, which restricts their ability to use other forms of energy. In addition, warmer than normal temperatures reduced interruptions.

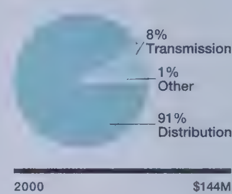
Deliveries to commercial and residential customers rose by a significant 6.7% over the preceding year. Even though temperatures were slightly cooler in 2000, there would still have been a 4.8% increase if temperatures had been normal for the two years. Higher sales in the commercial and residential markets account for the bulk of the increase. In addition, a favourable economic climate for the past three years, combined with sustained sales efforts, contributed to this performance. In Québec, sales (normalized for temperatures) reached 100 billion cubic feet, or 2.8 billion cubic metres.

Sales of propane gas are up by 8.0% to 8.2 million U.S. gallons, compared to 7.6 million in 1999.

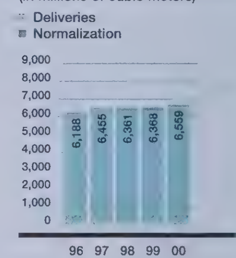
GROSS MARGIN



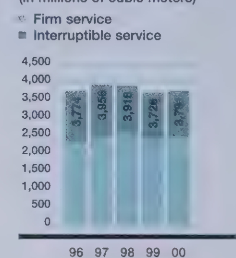
PARTNERS' INCOME



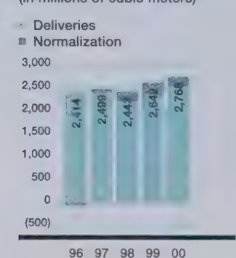
TOTAL VOLUME
(in millions of cubic meters)



DELIVERIES TO INDUSTRIAL CUSTOMERS
(in millions of cubic meters)



DELIVERIES TO COMMERCIAL AND RESIDENTIAL CUSTOMERS
(in millions of cubic meters)

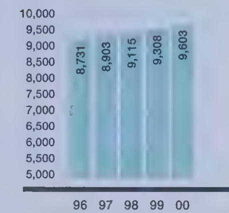


Capital expenditures in the distribution sector totalled $79.1 million compared to $81.5 million in 1999. Investments in 2000 include the construction of 295 kilometres of pipeline during the year, system improvements, in particular with respect to safety and the replacement of cast-iron pipelines, and various installations.

The distribution sector has 192,462 customers, including 150,741 in Québec. Its 41,721 customers in Vermont include some 9,000 customers of VGS Propane. To serve these customers, the Partnership has 1,300 employees in Québec and 147 in Vermont. Operations and maintenance costs for the sector were up by 5.0% to $145.9 million in 2000, compared to $138.9 million in 1999. Depreciation and amortization amounted to $103.9 million compared to $93.6 million the previous year. Interest on long-term debt decreased from $65.5 million to $63.5 million.

And finally, the excellent performance of the distribution sector translated into earnings of $135.2 million, compared to $124.5 million for the 1999 year, an increase of $10.7 million.

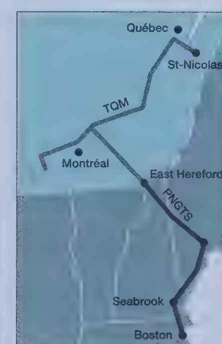
KILOMETRES OF DISTRIBUTION PIPELINE



TRANSMISSION SECTOR

The transmission sector includes the activities of the wholly-owned subsidiary, Champion Pipe Line Corporation Ltd, the 50% interest in TQM and the 19.1% interest in PNGTS in the United States. In 1999, TQM completed and brought into service a 217-kilometre extension from its main gas pipeline to East Hereford at the Québec/New Hampshire border. The 489-kilometre PNGTS pipeline originates at the same point and crosses parts of Maine and Massachusetts. It commenced operations in March 1999.

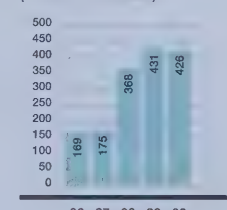
TQM is regulated by the National Energy Board in Canada and PNGTS is subject to the rules of the Federal Energy Regulatory Commission in the United States. In Canada, the cost of service of TQM's new pipeline is incorporated into its overall cost of service. In the United States, the rates for new gas pipelines are set based on the cost of service and the volumes forecast by the promoters of the gas pipeline. PNGTS has concluded 20-year agreements with its first customers. Pursuant to these agreements, it has committed to freezing its rates until March 2002, after which time they will be adjusted in accordance with the cost of service authorized by FERC. Approximately 60% of PNGTS' capacity is reserved under long-term contracts, which, at current rates, covers its expenses. PNGTS management is continuing its efforts to increase deliveries on the gas pipeline and to generate a profit.



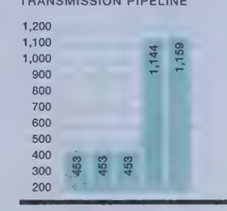
The transmission sector has undergone significant growth over the past two years. During the past year, gross margin increased from $51.3 million to $60.1 million. Operations and maintenance expenses amounted to $11.4 million in 2000, compared to $9.5 million in 1999. Depreciation and amortization charges totalled $14.4 million, compared to $10.9 million in 1999. Interest on long-term debt of $21.9 million was up by $4.7 million over 1999. These increases in revenues and costs can be explained primarily by the bringing into service in 1999 of the new gas pipelines, for which 2000 represents the first full year.

The transmission sector generated income of $12.0 million for the current year, compared to $12.7 million last year. Higher financing costs relating to the Partnership's investment in this sector account for the difference.

PARTNERSHIP'S SHARE IN TRANSMISSION ASSETS
(in millions of dollars)



KILOMETRES OF TRANSMISSION PIPELINE



ENERGY SERVICES AND OTHER

Revenues from unregulated activities amounted to $45.3 million in 2000 compared to $34.6 million in 1999. The higher revenues reflect the growth in sales for the entire sector and the impact of the acquisitions made in 1999, in particular in companies providing services for water and sewage systems.

Gross margin rose by $1.2 million in 2000 to $20.3 million compared to $19.1 million in 1999.

Operating and maintenance expenses are $15.4 million, an increase of $3.0 million over the $12.4 million incurred in 1999. Gaz Métropolitain Plus, which started operations in 2000, incurred additional, one-time operating costs relating to its start-up. Furthermore, 1999 acquisitions also contributed to the increase in expenses, with the result that Partners' income is down by $1.5 million to $0.5 million for 2000 from the 1999 level.

JIDITY AND CAPITAL STRUCTURE

The Partnership's improved profitability of $7.9 million combined with an increase of $15.1 million in depreciation and amortization helped increase cash flows related to operating activities, before the change in non-cash working capital items, by $31.8 million, or 13.6%, to $265.9 million, compared to $234.1 million in the preceding year.

Non-cash working capital items used $75.8 million compared to $12.5 million generated last year. This can be explained by the increase in the cost of natural gas included in inventories and accounts receivable at the end of the year. By way of indication, as at September 30, 2000 and 1999, the cost of system gas sold to customers was $5.38 per gigajoule and $3.27 per gigajoule respectively for the Québec distribution activity. Operating activities, after the change in non-cash working capital items, generated $190.0 million, compared to $246.5 million last year.

As has been previously indicated, the rate stabilization account normalizes revenues upwards or downwards based on volumes that would have been sold in Québec if temperatures had been normal. This does not, however, involve any receipt or disbursement of funds. Whereas the revenue adjustment amounted to $30.4 million in 1999, temperatures that were again warmer than normal during the past fiscal year resulted in a revenue adjustment of $29.1 million. The regulatory mechanism provides that, starting in the second subsequent year, the Partnership will recover the annual adjustment through rates over the next five years.

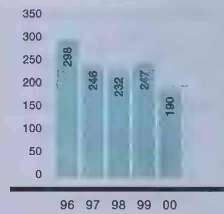
The Partnership made investments of $142.7 million in 2000, compared to $242.4 million in 1999, a decrease of $99.7 million. Investments in property, plant and equipment were down by $90.8 million to $86.0 million in 2000 compared to $176.8 million in 1999. This decrease can be explained by the completion of the TQM-Eastern Townships and PNGTS pipelines.

Deferred charges of $52.6 million are down by $5.8 million from $58.4 million in 1999 mainly because of a non-recurring item in the transmission sector. Investments and customer loans of $4.0 million are up $3.3 million from $0.7 million in 1999. An investment in Cable VDN, a company that constructs and operates a fibre optics network, coupled with a decrease in customer loans explain this increase.

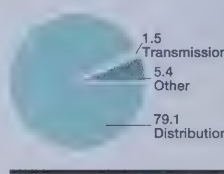
The main financing activities of the Partnership and its joint venture TQM were long-term debt issues for $100 million each, with a Partnership's share of $50 million in the case of TQM. The Partnership used the funds for working capital and property, plant and equipment. TQM used the funds it raised, which bear interest at 7.05%, to prepay a tranche of long-term debt bearing interest at 13.20%.

Distributions to Partners in 2000 totalled $137.0 million compared to $134.7 million during the preceding year. This increase is explained by the fact that there were a higher average number of units outstanding in 2000 compared to 1999, i.e. 110.5 million in 2000 compared to 108.7 million in 1999. Distributions per unit amounted to $1.24, compared to $1.25 in 1999. These distributions are in line with the Partnership's policy of distributing virtually all of its income in each fiscal year.

CASH FLOWS PROVIDED BY OPERATIONS
(in millions of dollars)



ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT
(in millions of dollars)



2000

FINANCIAL STRUCTURE

The Partnership's balance sheet shows total assets of $2.263 billion, an increase of $124.9 million over the preceding year. The $107.7 million increase in inventories and accounts receivable is mainly due to the higher price for natural gas. The balance of the increase can be explained by a $13.2 million increase in property, plant and equipment and $13.0 million for other items, including deferred charges.

The accounts receivable securitization program improves the utilisation of the Partnership's financial assets. As at September 30, 2000, the value of the accounts receivable that had been securitized amounted to $43.0 million. A $100.0 million limit has been negotiated with a financial institution.

The Partnership has various lines of credit, including a term loan of $300.0 million and operating lines totalling $193.0 million. As at September 30, an amount of $273.1 million had been used. Borrowings by subsidiaries and shares of joint venture borrowings amounted to $163.8 million ($179.3 million in 1999). The corresponding borrowing capabilities amount to $200.3 million. Current operating lines are sufficient to meet seasonal cash flow requirements for the 2001 fiscal year.

Long-term debt is made up of fixed rate bonds with various maturities, as well as long-term lines of credit with banks that facilitate financing up to $300 million of capital expenditures during construction. No repayments are required for these lines of credit before April 30, 2005. The Partnership's policy is to fix interest rates on approximately 75% of its long-term debt and leave the balance at floating rates.

Partners' equity of $806.0 million is up by $9.1 million compared to the preceding year. This increase can be explained by the $6.7 million excess of Partners' income over distributions as well as by translation adjustments of $2.4 million on investments in the United States.

As is indicated in the financial statements, the Partnership occasionally makes use of derivative financial instruments to protect system gas customers against fluctuations in natural gas prices. In management's view, the current situation with respect to natural gas prices is not conducive to using derivatives to fix the price of gas. Since October, to hedge against potential price hikes over the coming winter, the Partnership has been using options, collars and natural gas swaps with various parties. In addition, the Partnership and certain subsidiaries and joint ventures use swaps to hedge against possible increases in interest rates. In line with the Partnership's policy, derivative products are only used to cover risks flowing from actual transactions and cannot be used for speculative purposes.

The Partnership's financial structure and stability have enabled it to maintain its credit ratings, i.e. A+/A for its long-term bonds and A-1 and R-1 (low) for its commercial paper, by the Canadian Bond Rating Service and Dominion Bond Rating Service.

As at November 14, 2000, the closing price of the Partnership's units was $15.20 on the Toronto Stock Exchange.

On October 23, 2000, Gaz Métropolitain, inc., acting in its capacity as General Partner of the Partnership, concluded an agreement for the issue of $125 million first mortgage bonds. These 30-year bonds bear interest at a rate of 7.05%. The closing took place on October 26. Gaz Métropolitain, inc. reloaned the proceeds from the issue to the Partnership, which used the funds to reduce its outstanding debt and to finance capital expenditures as well as for other general requirements.

RISKS AND UNCERTAINTIES

The Partnership's core business is the distribution of natural gas in its service areas. Its ability to achieve sound financial results is mainly dependent on the competitiveness of natural gas in relation to other energy sources, the evolution of interest rates, the economic context in which the enterprises it serves are operating and the quality of the decisions rendered by the regulatory bodies. Because of the significance of the Québec natural gas distribution activity, this is particularly true for decisions rendered by the Régie with respect to rates and the Partners' authorized return on the equity attributed to this activity. The base rate of return authorized by the Régie is determined by a formula that fixes the return as a function of forecasted Canadian long-term interest rates. The base rate of return will be 9.60% for the current year. It can be increased by a performance incentive based on productivity gains determined in accordance with a new performance incentive mechanism approved by the Régie. The new incentive will reward the Partnership for generating a greater return on investments, optimizing asset use and exercising tighter control over its costs.

The Partnership's income growth over the longer term will depend in particular on the increase in investments related to the development of its distribution and transmission systems or the construction of gas pipelines or acquisitions. To a lesser extent, growth will also come from its ability to develop its unregulated activities.

At this point in time, the main concern is the competitive situation. Natural gas prices reached a high this past year and, according to some, may remain relatively high for a few years. New international gas pipelines, greater access to Canadian gas in the U.S. market and the development of the Sable Island reserves are other factors that will have an impact on the supply and demand for natural gas.

Even if oil prices continue to be very high compared to last year, they are still relatively attractive for some users. Electricity captures the largest share of the residential market and the stability of its price makes it a tough competitor. In the commercial market, the electricity distributor is using attractive marketing packages to target specific segments. Gaz Métropolitain will soon have its own commercial program, approved by the Régie, which will provide these potential customers with an alternative.

If the difficult competitive situation were to persist for several months, certain industrial customers as well as other large users may decide not to make a long-term commitment for significant volumes. However, there are considerations other than price that are also a factor when choosing an energy source. Ease of use and respect for the environment are two characteristics that make natural gas a preferred choice.

An uncertainty in the transmission sector is the financial performance of PNGTS, which will depend on the level of firm service volumes and on pipeline construction costs approved by the regulatory authorities.

During the year, the Partnership undertook a major review of its business processes in conjunction with the implementation of a new integrated information management system. The Enterprise Resource Planning-type solution retained requires major investments and staff resources, and will be implemented over three years. At this point in time, management does not foresee any problems with respect to the implementation of the system in terms of scope, timetable and budget. It has been given top priority by the Partnership.

A new regulatory framework for the distribution of natural gas in Québec has been accepted by the Régie following the negotiation of an agreement between the Partnership and the intervenors. A new performance incentive mechanism will allow the Partnership to retain part of the productivity gains that it generates for several years. The framework has been approved for a five-year period, starting in the current year. The rate application incorporating the new mechanism will be filed shortly. Income for the Québec distribution activity should be at least equal to that of last year.

The Partnership does not foresee any major changes in the transmission sector over the next year. However, the sector's results could be affected positively by the performance of PNGTS. The PNGTS management team, together with its co-owners, will have to continue its efforts to increase transmission volumes, which are presently insufficient to generate the authorized return on capital invested by the owners.

The newly formed Gaz Métropolitain Plus, which includes all of the Partnership's unregulated energy activities, will have to generate normal profits and plan for growth over the coming years. Other unregulated activities, which centre on water and sewage system diagnoses and the rehabilitation of such systems, will continue to get ready to seize business opportunities arising as a result of public sector infrastructure rehabilitation programs.

GAZ MÉTROPOLITAIN AND COMPANY, LIMITED PARTNERSHIP

MANAGEMENT'S REPORT

on the Consolidated Financial Statements of Gaz Métropolitain and Company, Limited Partnership

The consolidated financial statements of Gaz Métropolitain and Company, Limited Partnership and all of the information in this report are the responsibility of the management of Gaz Métropolitain, inc., acting in its capacity as General Partner of Gaz Métropolitain and Company, Limited Partnership. It is management's responsibility to select the appropriate accounting policies and to exercise its best judgment in determining reasonable and fair estimates based on generally accepted accounting principles in Canada and directives from the Régie de l'énergie. Financial information found elsewhere in this report is consistent with the consolidated financial statements.

Management maintains accounting and internal control systems that are designed to provide reasonable assurance that assets are adequately safeguarded and accounted for.

The Board of Directors assumes its responsibilities for the financial statements primarily through the Audit Committee, made up solely of outside directors. The Audit Committee reviews all of the information in this report as well as the annual financial statements and recommends their approval to the Board. Moreover, the Audit Committee examines on a continuous basis the quarterly financial results, the results of internal and external audits of accounting methods and the system of internal controls. The Audit Committee also recommends to the Board the appointment of external auditors. The external and internal auditors are free to communicate with the Audit Committee.

The firm of Raymond Chabot Grant Thornton has been given the mandate to audit the consolidated financial statements of Gaz Métropolitain and Company, Limited Partnership in accordance with generally accepted auditing standards in Canada. Their audit included the tests and other procedures they deemed necessary under the circumstances. Their independent opinion on the financial statements is presented hereinafter.

R Tessier

Robert Tessier
President and Chief Executive Officer
Gaz Métropolitain, inc.
Montréal, Canada, November 13, 2000

Luc Sicotte
Vice President and Chief Financial Officer
Gaz Métropolitain, inc.

AUDITORS' REPORT

To the Partners of Gaz Métropolitain and Company, Limited Partnership

We have audited the consolidated balance sheets of Gaz Métropolitain and Company, Limited Partnership as at September 30, 2000 and 1999, and the consolidated statements of income, Partners' equity and consolidated cash flows for the years then ended. These financial statements are the responsibility of the management of Gaz Métropolitain, inc., acting in its capacity as General Partner of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at September 30, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Raymond Chabot Grant Thornton

Raymond Chabot Grant Thornton
General Partnership
Chartered Accountants
Montréal, Canada, November 13, 2000

Years ended September 30 (in thousands of dollars)	2000	1999
REVENUES	$1,633,736	$1,339,022
DIRECT COSTS	1,100,310	841,367
GROSS MARGIN	533,426	497,655
EXPENSES		
Operations and maintenance	176,109	164,556
Depreciation	120,797	106,834
Interest on long-term debt	87,464	85,307
Financial and other	5,334	5,186
	389,704	361,883
PARTNERS' INCOME	$ 143,722	$ 135,772
WEIGHTED AVERAGE NUMBER OF OUTSTANDING UNITS (in thousands)	110,469	108,671
PARTNERS' INCOME PER UNIT (in dollars)	$ 1.30	$ 1.25

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED PARTNERS' EQUITY

Years ended September 30 (in thousands of dollars)	2000	1999
CAPITAL		
Balance, beginning of year	$ 791,640	$ 732,143
Unit issue (Note 8a)	–	58,473
Partners' income	143,722	135,772
	935,362	926,388
Distributions to Partners (Note 8b)	(136,981)	(134,748)
Balance, end of year	798,381	791,640
TRANSLATION ADJUSTMENT		
Balance, beginning of year	5,183	8,800
Change	2,396	(3,617)
Balance, end of year	7,579	5,183
PARTNERS' EQUITY	$ 805,960	$ 796,823

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

As at September 30 (in thousands of dollars)	2000	1999
ASSETS		
CURRENT ASSETS		
Cash	$ 4,081	$ 9,203
Trade and other receivables	74,267	41,333
Inventories	207,598	132,872
Prepaid expenses	8,525	12,302
	294,471	195,710
PROPERTY, PLANT AND EQUIPMENT (Note 2)	1,740,645	1,727,480
OTHER ITEMS		
Deferred charges (Note 3)	191,736	182,502
Goodwill and other (Note 4)	36,087	32,306
	227,823	214,808
	$2,262,939	$2,137,998
LIABILITIES		
CURRENT LIABILITIES		
Bank borrowings (Note 6)	$ 33,216	$ 45,779
Accounts payable and accrued liabilities	228,486	199,711
Debt maturing within one year	3,722	11,321
	265,424	256,811
LONG-TERM DEBT (Note 7)	1,189,766	1,082,376
NON-CONTROLLING INTEREST	1,789	1,988
	1,456,979	1,341,175
PARTNERS' EQUITY (Note 8)	805,960	796,823
	$2,262,939	$2,137,998

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board of Directors of Gaz Métropolitain, inc.,
in its capacity as General Partner

Robert Tessier
Director

Réal Sureau
Director

Years ended September 30 (in thousands of dollars)	2000	1999
OPERATING ACTIVITIES		
Partners' income	$ 143,722	$ 135,772
Non-cash items:		
Depreciation of fixed assets	78,026	72,639
Amortization of deferred charges and issue expenses	43,678	34,148
Amortization of goodwill	1,226	1,073
Reduction in deferred charges related to natural gas transmission and storage	28,924	21,350
Rate stabilization accounts	(29,050)	(30,417)
Non-controlling interest	(676)	(513)
	265,850	234,052
Change in non-cash working capital items (Note 9a)	(75,847)	12,487
Cash flows related to operating activities	190,003	246,539
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(86,012)	(176,819)
Deferred charges	(52,624)	(58,398)
Investments and customer loans	(4,021)	(732)
Acquisitions of subsidiaries and joint ventures (Note 9b)	–	(6,423)
Cash flows related to investing activities	(142,657)	(242,372)
FINANCING ACTIVITIES		
Change in bank borrowings	(12,926)	1,116
Change in term loan	27,567	(39,324)
Other long-term debt:		
Issue	153,906	176,532
Repayments	(84,463)	(85,719)
Unit issue	–	58,473
Non-controlling interest	429	542
Distributions to Partners	(136,981)	(134,748)
Cash flows related to financing activities	(52,468)	(23,128)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,122)	(18,961)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,203	28,164
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,081	$ 9,203

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Partnership's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. In preparing the consolidated financial statements, the Partnership's management has to make estimates and assumptions that have an impact on the assets and liabilities shown in the balance sheet, the contingent liabilities noted as at the date of the financial statements and on the revenues and expenses presented in the statement of income for the year. Actual results may differ from these estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Gaz Métropolitain and Company, Limited Partnership (hereinafter GMCLP) and its subsidiaries. In addition, the investments in joint ventures are accounted for under the proportionate consolidation method. Other investments are recorded at cost.

REGULATION

GMCLP is engaged primarily in the distribution of natural gas by pipeline in Québec. Therefore, most aspects of its activities, namely setting distribution rates, developing the system and marketing activities, are subject to the supervision and control of the Régie de l'énergie (hereinafter the Régie). Moreover, the Act respecting the Régie provides that distribution rates are set to enable the distributor to cover the cost of providing the service, to obtain a reasonable return on the rate base established by the Régie and to improve its performance by providing incentives.

In decision D-90-75 issued on December 19, 1990, as part of the corporate reorganization of August 12, 1991, the Régie determined that the rate of return on the rate base would be set using an adjusted capital structure. As a result, it determined that a portion of Partners' equity, based on approximately 7.5% of total capitalization, is compensated on the same basis as preferred shares and the balance of about 38.5% on the same basis as common shares. For regulatory purposes, GMCLP's operating expenses include deemed income taxes, large corporations tax and deemed tax on capital. These deemed taxes are calculated as if GMCLP were a taxable Canadian corporation, notwithstanding the tax status and the tax rate of the Partners.

In addition, the Régie, in exercising its powers, renders decisions that affect the adoption and use by GMCLP of certain accounting practices which differ from those otherwise applied in unregulated businesses, in particular with respect to certain deferred charges including rate stabilization accounts, property, plant and equipment and their related depreciation, income taxes and pension plans.

Certain other activities are regulated by bodies such as the National Energy Board (hereinafter NEB), the Federal Energy Regulatory Commission and the Vermont Public Service Board.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and very liquid short-term investments with a maturity of three months or less when purchased.

INVENTORIES

Natural gas in storage is carried at average cost using the monthly adjustment method, approved by the Régie, which provides for the total cost to be charged to customers. Inventories of materials and supplies are carried at the lower of average cost and replacement value.

PROPERTY, PLANT AND EQUIPMENT

Acquisitions, replacements and improvements are recorded at cost, including direct costs, general and administrative expenses and an allowance on funds used for certain construction projects as accepted by regulatory authorities. The historical cost of retired properties related to the distribution system and the retirement costs are applied against accumulated depreciation. Under this method, no gain or loss on disposal of assets is realized.

Depreciation is calculated using mainly the straight-line method based on the residual useful lives of the existing assets. The rates are periodically revised and approved by the Régie and include recovery of the unamortized cost of existing assets, estimates of the future costs of retiring the properties and the profit and loss upon disposal of properties already retired.

DEFERRED CHARGES

GMCLP defers certain charges that are amortized and recovered in its distribution rates over various periods depending on the nature of such charges.

To alleviate the effect of unpredictable and uncontrollable factors on its operations, the principal one being the impact of temperature fluctuations on its revenues, GMCLP is authorized by the Régie to maintain various rate stabilization accounts. Beginning in the second subsequent year, annual fluctuations are amortized over five years and recovered in rates.

GOODWILL

Management reviews goodwill annually to determine the possible loss in value by comparing the real value of its investments in its subsidiaries and joint ventures with undiscounted future cash flows. Moreover, if economic factors and related conditions appeared to indicate a permanent loss of value, GMCLP would then recognize the loss of value in the current year.

DEVELOPMENT ACTIVITIES

The costs related to development activities are capitalized except in cases where GMCLP does not have reasonable assurance that these costs will be recovered in the future.

FOREIGN CURRENCY TRANSLATION

Long-term debt payable in foreign currency is translated into Canadian dollars at the rate of exchange prevailing at year-end or, as the case may be, at rates prescribed in forward exchange contracts used for hedging purposes. Unrealized gains and losses on exchange are deferred and amortized over the balance of the refund periods.

The assets and liabilities of foreign subsidiaries that are self-sustaining with respect to financing and operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rate prevailing during the fiscal year. Gains and losses are shown under the caption "Translation adjustment" in the consolidated statement of Partners' equity.

REVENUES

Revenues include estimated volumes delivered but not billed at the end of the year as well as the impact of rate stabilization accounts resulting from temperature fluctuations. Overearnings, if any, which are recognized based on the Régie's decision, are deducted from revenues.

INCOME TAXES

GMCLP does not show income tax expense since under existing legislation it is the Partners who are taxable.

PENSION PLANS

GMCLP charges pension contributions made during the fiscal year to income based on the capitalization method, in accordance with regulatory practice, which requires that expenses incurred be included in the cost of service (see Note 11).

GMCLP's subsidiaries and joint ventures provide defined benefit and defined contribution pension plans. For defined benefit plans, costs and obligations attributable thereto are determined using the projected benefit method prorated according to years of service. They are charged to income during the years the employees render their services. For defined contribution plans, contributions are charged to income as pension plan costs.

POST-RETIREMENT BENEFITS, OTHER THAN PENSION PAYMENTS

GMCLP and its subsidiary Gaz Métropolitain Plus Limited Partnership (hereinafter GMPLP) provide retired employees with life insurance as well as certain benefits related to medical services. The cost thereof is charged to income as payments are made.

PROPERTY, PLANT AND EQUIPMENT

	2000			1999		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Storage	$ 23,842	$ 11,712	$ 12,130	$ 23,710	$ 11,148	$ 12,562
Transmission (a)	825,685	311,676	514,009	820,204	284,285	535,919
Distribution	1,889,988	555,809	1,334,179	1,818,200	505,696	1,312,504
General plant	174,616	67,128	107,488	161,415	62,407	99,008
	2,914,131	946,325	1,967,806	2,823,529	863,536	1,959,993
Government grants	(436,678)	(209,517)	(227,161)	(427,036)	(194,523)	(232,513)
	$2,477,453	$ 736,808	$1,740,645	$2,396,493	$ 669,013	$1,727,480

Average depreciation rates are 3.28% in 2000 and 3.33% in 1999. Depreciation is $78,026,000 in 2000 and $72,639,000 in 1999. The amount of capitalized general and administrative expenses totals $9,627,000 in 2000 and $9,678,000 in 1999.

a) These costs include an authorized allowance on funds used during construction (AFUDC) of $145,000 and $8,646,000 for the years ended September 30, 2000 and 1999 related to two gas pipeline construction projects.

DEFERRED CHARGES

	2000	1999
Conversion grants	$ 52,858	$ 51,548
Costs related to infrastructure projects	15,398	19,133
Costs related to Australian dollar notes	3,407	4,732
Development of computer systems	24,488	23,345
Costs relating to new tax assessments for previous years	1,775	3,814
Rate flexibility	3,986	5,273
Long-term debt issue expenses	7,815	6,856
Expenses related to natural gas costs	(9,922)	(6,584)
Rate stabilization accounts	77,768	54,873
Other	14,163	19,512
	$191,736	$182,502

Amortization of deferred charges is $41,545,000 in 2000 and $33,122,000 in 1999 and the amortization of long-term debt issue expenses included in interest on long-term debt is $2,133,000 in 2000 and $1,026,000 in 1999. The reduction in deferred charges related to natural gas costs, including transmission and storage, is $28,924,000 in 2000 and $21,350,000 in 1999. The effective average depreciation period was 4 years in 2000 and 5 years in 1999.

4. GOODWILL AND OTHER

	2000	1999
Unamortized goodwill	$24,698	$25,439
Customer loans	3,898	5,996
Other investments	7,491	871
	$36,087	$32,306

Goodwill is amortized using the straight-line method over periods of 17 to 40 years. Amortization is $1,226,000 in 2000 and $1,073,000 in 1999.

5. INTEREST IN JOINT VENTURES

OWNED BY GMCLP

TQM Pipeline and Company, Limited Partnership (hereinafter TQM):	50.0%
Sogener:	50.1%
Aqua-Rehab Group Inc.:	50.0%
Sofame Technologies Inc.:	25.0%
3632491 Canada Inc.: *(sole shareholder of Aqua Data Inc. and Stelem Inc.)*	50.0%

OWNED THROUGH SUBSIDIARIES

Portland Natural Gas Transmission System (hereinafter PNGTS):	19.1%
Option Gaz Ltée:	50.0%

GMCLP's share of the consolidated financial statement components of the joint ventures is as follows:

	2000	1999
INCOME		
Revenues	$ 67,500	$ 52,404
Expenses	53,835	38,783
Net income	$ 13,665	$ 13,621
BALANCE SHEET		
Current assets	$ 21,844	$ 18,960
Long-term assets	400,695	410,488
	$422,539	$429,448
Current liabilities	$ 23,784	$ 26,337
Long-term liabilities	258,549	267,006
	282,333	293,343
Partners' equity	140,206	136,105
	$422,539	$429,448
CASH FLOWS RELATED TO:		
Operating activities	$ 25,265	$ 26,717
Investing activities	(3,232)	(98,202)
Financing activities	(18,791)	53,747
Increase (decrease) in cash and cash equivalents	$ 3,242	$ (17,738)

6. BANK BORROWINGS

The short-term bank borrowings and credit lines of GMCLP and its TQM joint venture are unsecured and bear interest at a rate of 5.90% and 6.32% respectively as at September 30, 2000 and of 5.00% and 5.17% respectively as at September 30, 1999. The maximum authorized amounts for these borrowings are $193,000,000 for GMCLP and $30,000,000 for its share in TQM.

As at September 30, 2000 and 1999, bank loans and credit lines of Vermont Gas Systems (hereinafter VGS) and VGS Propane, LLC (hereinafter VGSP) bear interest at the rate of 6.82% and 10.00%, and 5.73% and 8.75% respectively. The maximum authorized loan of $19,546,000 for VGS is unsecured and the maximum authorized loan of $2,255,000 for VGSP is secured by a first mortgage on assets.

LONG-TERM DEBT

	Interest rate	Year of maturity	2000	1999
GMCLP (a)				
First mortgage bonds (b)				
Series	11.75%	2006	$ 42,000	$ 45,000
Series	10.75%	2007	75,000	75,000
Series "D"	10.45%	2017	125,000	125,000
Series "E"	9.00%	2025	100,000	100,000
Series "F"	7.20%	2028	50,000	50,000
Series "H"	6.05%	2009	100,000	100,000
Series "H"	6.95%	2010	100,000	–
			592,000	495,000
Australian dollar notes (c)	17.03%	2000	–	35,281
Term loan (5.15% in 1999) (d)	5.93%	2005	273,068	223,658
Other	5.64%	2001 to 2005	4,160	400
			869,228	754,339
NNEG				
Term note NNEG (e) (US$10,200 in 2000 and 1999)	7.45%	2002	15,336	14,967
Unsecured preferred note VGS (US$10,000 in 2000 and 1999)	7.62%	2028	15,035	14,675
Term note VGSP (f) (US$7,850 in 2000 and US$8,000 in 1999) (6.91% in 1999)	8.21%	2003	11,802	11,739
PNGTS loan (g) (US$48,813 in 2000 and 1999) (6.06% in 1999)	7.47%	2003	73,390	71,628
			115,563	113,009
TQM				
First mortgage bonds (h) (9.69% in 1999)	7.29%	2005 to 2010	142,500	138,000
Term loan (5.21% in 1999) (i)	6.04%	2003	42,350	58,875
			184,850	196,875
OTHER				
Non-recourse term loans and other (j) (5.53% in 1999)	6.46%	2003 to 2006	23,847	29,474
			1,193,488	1,093,697
CURRENT PORTIONS			3,722	11,321
			$1,189,766	$1,082,376

ANNUAL CAPITAL REPAYMENTS:

Annual capital repayments required during the next five years to meet maturities and sinking fund requirements, excluding redemptions before maturity at GMCLP's option and amounts that will be refinanced through long-term borrowings, are:

2001: $3,722	2002: $3,770	2003: $63,849	2004: $3,017	2005: $3,013

a) The first mortgage bonds, Australian dollar notes, as well as the forward exchange contracts and related swap agreements, and the term loan are secured under a trust deed which contains a hypothec on the universality of movable property, present and future, of GMCLP situated in the province of Québec. These loans are also covered by a first immovable hypothec on the GMCLP present and future pipelines and gas system.

b) GMCLP's first mortgage bonds are redeemable at the greater of the face value or the value that reflects market conditions.

c) The Australian dollar notes were covered by a series of forward exchange contracts and swap agreements to eliminate financial risks. These contracts brought the cost of the borrowing to a fixed rate of 12.11%.

d) The term loan makes it possible to use commercial paper and the agreement allows GMCLP to borrow up to $300,000,000; no repayments are required before the maturity date of April 30, 2005.

e) The Northern New England Gas Corporation (hereinafter NNEG) term note is secured by the shares of its wholly-owned subsidiary, VGS.

f) The VGSP term loan is secured by a direct charge on its assets. An interest rate swap agreement was concluded to fix the rate at 7.65% for the term ending March 2003.

g) This non-recourse loan for the project's partners is secured by a direct charge on PNGTS' principal assets, including long-term customer contracts, and PNGTS' units held by its partners.

Interest rate swap agreements, for which the Partnership's share represents a nominal value of $54,448,000 (US$36,214,000), fixing the effective rate at 6.35%, have been concluded until March 2003.

h) TQM's first mortgage bonds are all secured by a fixed, specific first hypothec on the gas pipeline system and on service, transmission and gas sales contracts, and by a hypothec on the business and all property and assets. Upon reimbursement by TQM of the series maturing on September 22, 2005, and all series issued after September 30, 2000, if any, the remaining series will no longer be secured by these hypothecs.

Bonds of one of the Series, which bears interest at 13.20%, were redeemed at prime in May 2000. The Partnership's share of this redemption amounts to $26,000,000.

On July 17, 2000, TQM issued bonds at an interest rate of 7.05%. The Partnership's share in this issue is $50,000,000. Proceeds of this issue were used to reimburse outstanding bonds and term loans.

i) On April 1, 2000, TQM's term loan, originally contracted for its system extension, was converted for an additional period of three years and is secured by hypothecs, as described in note h). The Partnership's interest in the maximum amount of this loan is $42,350,000 and $62,875,000 as at September 30, 2000 and 1999 respectively.

7. LONG-TERM DEBT (CONTINUED)

j) GMCLP's subsidiaries can borrow up to $30,900,000 under term loan agreements, secured by a hypothec on the universality of their movable property and an immovable hypothec of $7,000,000 on an immovable property. For the most part, the term loans are bankers acceptances.

As at September 30, 2000 and 1999, the interest rate swap agreements entered into for Gaz Métropolitain Plus Finance Limited Partnership have a nominal value of $2,569,000 and $9,442,000 respectively, and an interest rate of 8.45% and 8.61% respectively. They do not mature beyond June 20, 2001.

k) As at September 30, 2000 and 1999, unregulated activities, both related and unrelated to the energy sector, owned by GMCLP represented 1.4% and 1.3% respectively, of its total non-consolidated assets. GMCLP has undertaken not to increase its interest in such activities above 10% of its total non-consolidated assets pursuant to its trust deeds.

l) As at September 30, 2000 and 1999, interest coverage on consolidated long-term debt is respectively 2.68 times and 2.61 times and consolidated tangible net asset coverage on consolidated long-term debt, including current maturities, is respectively 1.65 times and 1.70 times.

8. PARTNERS' EQUITY

AUTHORIZED

Unlimited number of units; each unit is equal in rank with any other unit and is entitled to the same rights, privileges and obligations.

ISSUED AND FULLY PAID

	2000	1999
Number of units as at September 30 (in thousands of units)	110,469	110,469

a) During the year ended September 30, 1999, GMCLP issued 3,550,800 units at a price of $17.35 per unit for cash consideration of $61,606,000 less issue expenses of $3,133,000.

b) The agreements relating to the various long-term debt trust deeds provide that GMCLP will not make a distribution to its Partners if long-term debt exceeds 75% of total capitalization. The agreements also provide that GMCLP will not issue any new long-term debt if such debt would exceed 65% of total capitalization. GMCLP is in compliance with these covenants as at September 30, 2000 and 1999.

9. CASH FLOWS

a) Change in non-cash working capital items

	2000	1999
Trade and other receivables	$(32,390)	$ 14,971
Inventories	(74,363)	(26,717)
Prepaid expenses	3,795	6,257
Accounts payable and accrued liabilities	27,111	17,976
	$(75,847)	$ 12,487

b) Acquisition of subsidiaries and joint ventures

On June 18, 1999, GMCLP acquired a 50% interest in the Aqua-Rehab Group, whose business is the rehabilitation of aqueducts and sewers.

On August 11, 1999, GMCLP acquired a 50% interest in 3632491 Canada Inc., the sole shareholder of Aqua Data Inc. and Stelem Inc., whose business is aqueduct and sewage system diagnoses.

Between July 27 and August 12, 1999, GMCLP acquired a total interest of 25% in Sofame Technologies Inc., whose business is the marketing of the technology for direct-contact water heaters.

On April 14, 1999, Sogener and Company, Limited Partnership, in which GMCLP holds a 50.1% interest, acquired all the issued shares of Climtech Inc., whose business is the sale, installation and service of air conditioning, cooling and ventilation systems.

In 1999, the total cost of these acquisitions was $7,554,000. These acquisitions are recorded using the purchase method. The related income is included in the consolidated statement of income from the date of acquisition.

Goodwill paid in 1999 amounts to $3,139,000 and, given the nature of the acquisitions, is amortized over a period of 20 years.

Acquisitions in 1999 are as follows:

Working capital	$ 2,636
Property, plant and equipment	1,779
Goodwill	3,139
Assumption of long-term debt	(1,111)
Balance of purchase price payable	(20)
Cash used for acquisitions	$ 6,423

c) Other information:

	2000	1999
Interest received	$ 2,888	$ 4,886
Interest paid	$92,166	$88,985

10. RESULTS

a) For the year ending September 30, 2000, revenues exclude preliminary overearnings of $6,015,000 compared to $11,117,000 for 1999.

Following the review of the regulatory report for the year ended September 30, 1999 and based on the method for sharing overearnings, the Régie has authorized the distributor to keep an amount of $5,545,000 as an incentive return, which is included in income for 2000. An amount of $2,846,000 was included in 1999 income following the submission of the regulatory report for the year ended September 30, 1998. A regulatory report should be filed with the Régie in December for the year ended September 30, 2000.

b) For the years ending September 30, 2000 and 1999, annual changes in the rate stabilization accounts represent net revenues of $29,050,000 and $30,417,000 respectively, which are included in the corresponding revenue, direct cost and interest on long-term debt accounts.

11. PENSION PLANS

GMCLP and GMPLP contribute to two registered defined benefit pension plans under which employees will receive a pension determined according to length of service and salaries during their highest earning years. A supplementary pension plan was also created on January 1, 1992 for designated senior management personnel.

Contributions by GMCLP and GMPLP to the pension plans are based on actuarial estimates and methods provided by the Canadian Institute of Actuaries. The Régie de l'énergie recognizes such contributions in the determination of rates for each year.

NNEG, TQM and Corporation de Chauffage Urbain de Montréal (hereinafter CCUM) have defined benefit plans which can be contributory or non-contributory. NNEG also has, for designated senior management personnel, a defined contribution plan and a supplementary pension plan.

PNGTS has a defined contribution plan to which employees may contribute if they so wish.

Based on actuarial reports, it is estimated that the present value of the accrued pension benefits and assets, the value of which takes market value into consideration, available to provide these benefits are $209,269,000 and $245,328,000 respectively as at September 30, 2000 and $198,268,000 and $218,329,000 respectively as at September 30, 1999.

Costs attributable to the Partnership's pension plans amount to $4,623,000 in 2000 and $5,399,000 in 1999.

12. REGULATORY AND TAX POSITION

For regulatory purposes, with respect to gas distribution in Québec, only current income taxes payable are deemed and taken into account in setting rates. For income tax purposes, GMCLP has claimed capital cost allowance and certain other deductions relating to deferred charges that have the effect of reducing the Partners' income for tax purposes, thereby deferring to future years income taxes otherwise payable by the Partners.

The amount of these deferred income taxes and the taxes related to GMCLP's ownership interest in TQM is calculated on the basis of the applicable tax rates for taxable Canadian corporations in each of the fiscal years in which differences were created and which have not been adjusted for current rates. The amount is $182,394,000 as at September 30, 2000 and $185,038,000 as at September 30, 1999. The Régie and the NEB are expected to allow their inclusion in rates as these differences are reversed.

In addition, other income taxes amounting to $5,732,000 as at September 30, 2000 and to $6,915,000 as at September 30, 1999 have been deferred. These amounts arise primarily from the reorganization carried out in 1991 and represent income taxes on certain deferred charges that could not be transferred to GMCLP for income tax purposes, and income taxes on the excess of the unamortized portion of the deemed capital cost of GMCLP's depreciable property for regulatory purposes, over the undepreciated portion of the actual capital cost of such property. These amounts also take into consideration deferred taxes related to the lag in TQM's fiscal year, the undeducted balance of issue expenses related to GMCLP units, taxable management fee income and provisions related to non-deductible development fees. When such income taxes become payable, they may not be included in rates and, consequently, will at such time increase taxable income which will be allocated to the Partners.

13. SEGMENTED DATA

The business sectors presented are segmented in line with the way management organizes the various segments within the Partnership for the purposes of operational decision-making and performance assessment. GMCLP has the three following reportable segments:

Distribution:	distributes natural gas;
Transmission:	transports natural gas;
Energy Services and Other:	includes unregulated activities of energy and technology services, sale, leasing, financing and maintenance of gas appliances and aqueduct and sewage system diagnoses and repairs.

The accounting policies for these segments are the same as those described in Note 1. The Partnership assesses performance based on operating income before income taxes.

The Partnership records inter-segment sales and transfers as though they were made to a third party, i.e. at market value.

			2000		
	Distribution	Transmission	Energy Services and Other	Non-allocated expenses and eliminations	Total
Customer revenues	$1,530,369	$ 57,957	$40,391	$ –	$1,628,717
Inter-segment revenues	2,097	687	4,736	(7,520)	–
Interest income (a)	3,387	1,494	138	–	5,019
Total revenues	1,535,853	60,138	45,265	(7,520)	1,633,736
Direct costs	1,082,493	–	24,916	(7,099)	1,100,310
Gross margin	453,360	60,138	20,349	(421)	533,426
Operations and maintenance expenses	145,884	11,438	15,409	3,378	176,109
Earnings before interest, taxes, depreciation and amortization (EBITDA)	307,476	48,700	4,940	(3,799)	357,317
Depreciation and amortization	103,918	14,378	2,303	198	120,797
Interest expense	68,395	22,287	2,128	(12)	92,798
Partners' income	$ 135,163	$ 12,035	$ 509	$ (3,985)	$ 143,722
Assets	$1,788,632	$426,052	$59,873	$(11,618)	$2,262,939
Capital expenditures	$ 79,092	$ 1,528	$ 5,392	$ –	$ 86,012
Deferred charges	51,961	1,261	1,204	(1,802)	52,624
	$ 131,053	$ 2,789	$ 6,596	$ (1,802)	$ 138,636

	1999				
	Distribution	Transmission	Energy Services and Other	Non-allocated expenses and eliminations	Total
Customer revenues	$1,254,678	$ 42,786	$30,273	$ –	$1,327,737
Inter-segment revenues	2,490	781	4,329	(7,600)	–
Interest income (a)	3,587	7,698	–	–	11,285
Total revenues	1,260,755	51,265	34,602	(7,600)	1,339,022
Direct costs	833,950	–	15,475	(8,058)	841,367
Gross margin	426,805	51,265	19,127	458	497,655
Operations and maintenance expenses	138,947	9,509	12,366	3,734	164,556
EBITDA	287,858	41,756	6,761	(3,276)	333,099
Depreciation and amortization	93,615	10,887	2,133	199	106,834
Interest expense	69,754	18,143	2,638	(42)	90,493
Partners' income	$ 124,489	$ 12,726	$ 1,990	$ (3,433)	$ 135,772
Assets	$1,660,874	$431,123	$59,357	$(13,356)	$2,137,998
Capital expenditures	$ 81,491	$ 89,581	$ 5,747	$ –	$ 176,819
Deferred charges	53,142	5,353	124	(221)	58,398
	$ 134,633	$ 94,934	$ 5,871	$ (221)	$ 235,217

Only the distribution sector includes significant items other than depreciation and amortization that have no impact on cash flows, i.e. rate stabilization accounts and reduction in deferred charges related to the transmission and storage of natural gas as specifically shown in the cash flow statement.

a) Distribution interest income arises mainly from the capitalized return on assets not included in the rate base in accordance with regulatory provisions. Transmission interest income arises from the capitalized return on funds used in pipeline projects under construction.

GEOGRAPHIC INFORMATION

	2000		1999	
	Revenues	Fixed assets and goodwill	Revenues	Fixed assets and goodwill
Canada	$1,533,554	$1,547,940	$1,262,066	$1,540,614
United States	100,182	217,403	76,956	212,305
Total	$1,633,736	$1,765,343	$1,339,022	$1,752,919

14. RELATED PARTY TRANSACTIONS

During the year, GMCLP concluded the following transactions with related parties in the normal course of business, as authorized by the Régie. The amounts received from or paid to related parties are determined based on contracts between the parties and in which the value of the services rendered has been established at the exchange amount:

	2000	1999
Purchase of natural gas from one of the ultimate shareholders of Gaz Métropolitain, inc.	$19,680	$19,376
Storage service owned in part by one of the ultimate shareholders of Gaz Métropolitain, inc.	$13,900	$12,285

As at September 30, 2000 and 1999, transactions with the parent company, Gaz Métropolitain, inc. (hereinafter GMi), and companies owned by its ultimate shareholder represent a net amount payable of $4,164,000 and $3,015,000 included in accounts payable and accrued liabilities, and trade and other receivables. Under the partnership agreement, GMCLP pays management fees of $50,000 annually to GMi.

15. FINANCIAL INSTRUMENTS

The fair value of the financial instruments represents the estimated amounts which the Partnership would receive or pay to cancel these financial instruments as at the date of the financial statements. As at September 30, 2000, the Partnership is not planning to cancel any financial instruments before the maturity date.

FINANCIAL INSTRUMENTS INCLUDED IN BALANCE SHEET

Cash, trade and other receivables, bank borrowings as well as accounts payable and accrued liabilities are short-term financial instruments whose fair value approximates the carrying amount given that they will mature shortly.

Fair value of long-term debt

The fair value of the long-term debt, including current instalments, is calculated using stock exchange prices at the end of the year or discounted cash flows using interest rates which GMCLP, its subsidiaries and its joint ventures could have obtained as at the balance sheet date for loans with similar terms, conditions and maturity dates.

	2000		1999	
	Carrying amount	Fair value	Carrying amount	Fair value
LONG-TERM DEBT				
GMCLP	$ 869,228	$ 954,402	$ 754,339	$ 926,737 (1)
NNEG	115,563	120,391	113,009	115,393
TQM	184,850	187,576	196,875	200,983
Other	23,847	23,847	29,474	29,498
	$1,193,488	$1,286,216	$1,093,697	$1,272,611

(1) The fair value of the Australian dollar notes amounted to $113,744,000 in 1999. The Partnership has entered into swap agreements and forward contracts with respect to these notes for which the positive fair value was $76,533,000 as at September 30, 1999.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

GMCLP, its subsidiaries and joint ventures use derivative financial instruments, namely swap agreements, to manage the risk of natural gas supply price fluctuations and forward exchange contracts and swap agreements to hedge against interest and exchange rate fluctuations. The fair value of off-balance sheet swap agreements is determined using published indices on the closing date. The gains or losses attributable to financial instruments considered to be used for hedging purposes are deferred and recognized in income under revenues and expenses arising from the corresponding hedged positions on the basis allowed by the Régie.

The Partnership only concludes risk management transactions with major financial institutions that meet its credit evaluation standards.

Natural gas prices

During the year, in accordance with the Régie's decision D-99-207 dated November 29, 1999, GMCLP used swap agreements for the purpose of converting variable prices into fixed prices for system gas volumes. As at September 30, 2000, three contracts to fix system gas prices are in effect and will end on October 31, 2000. During this period, committed volumes total 558,000 gigajoules for $1,557,000.

Fair value of off-balance sheet financial instruments

	2000	1999
	Positive fair value	Positive fair value
EXCHANGE RISK		
Swaps and forward contracts related to Australian dollar notes (Note 7c)	$ –	$76,533
INTEREST RATE RISK		
Swaps related to long-term debt (Note 7 f, g, j)	$1,766	$ 2,181
PRICE RISK		
Swaps related to natural gas price	$2,093	$ –

Sale of receivables

In September 1996, GMCLP signed a sales agreement covering a portion of its trade receivables for a period of five years ending on October 1, 2001. Under the agreement, GMCLP must assign each month a minimum of $40,000,000 and a maximum of $100,000,000 of its trade receivables, which was complied with for the 2000 and 1999 years. The proceeds from the sale total $43,000,000 as at September 30, 2000 and 1999.

Management considers that these financial instruments do not present any unusual risk and does not expect any significant gain or loss as a result of these transactions.

16. CONTINGENT LIABILITIES

a) GMCLP is cited in claims and lawsuits in the normal course of its activities. In the opinion of management, these claims and lawsuits are, for the most part, covered by appropriate insurance coverage and the overall amount of the contingent liability relating to these claims and lawsuits is not material.

b) The NNEG subsidiary has been cited in a lawsuit, jointly with others, following the discovery of polluting substances on land it once owned for a brief period of time. The investigation by the U.S. Environmental Protection Agency has not been completed and NNEG is unable to predict the outcome of the lawsuit at this time. In the event a claim arises, an application will be filed with the Vermont Public Service Board to seek recovery through rates. Moreover, an agreement was reached, in 1994, between NNEG and a third party limiting the maximum amount payable by NNEG. In the opinion of management, any costs resulting from this claim would not be significant.

c) Upon completion of the construction of the TQM pipeline extension to the U.S. border, the project manager of the construction work lodged a claim against TQM for reimbursement of the contractor's cost overruns. This claim is presently under arbitration to determine the merits and the quantum of the claim. The contractor also registered a legal hypothec on TQM's pipeline, the result of which depends on the merits of the claim and the non-payment of the debt by TQM, which is unlikely. GMCLP does not expect the arbitrator's decision will have a significant financial impact on the pipeline's profitability or on GMCLP's overall financial situation. On the U.S. side, where GMCLP holds a 19.1% interest in PNGTS, the cost overrun is also subject to arbitration proceedings, the result of which should not, according to GMCLP, jeopardize the financial condition of either the PNGTS pipeline or GMCLP.

17. SUBSEQUENT EVENTS

a) Distributions totalling $34,245,000, or $0.31 per unit, were paid to Partners on October 1, 2000.

b) On October 26, 2000, GMi, acting in its capacity as General Partner of GMCLP, issued MTN Series "I" first mortgage bonds of $125,000,000 bearing interest at the rate of 7.05% and maturing on October 30, 2030. GMi reloaned the proceeds from the issue to GMCLP under the same conditions as regards interest rate and maturity. The net proceeds from the issue will be used to reduce its outstanding debt and to finance capital expenditures as well as for other general requirements.

c) On October 1, 2000, GMCLP carried out a series of transactions to change the legal status of the CCUM into a limited partnership, under the name Climatisation et Chauffage Urbains de Montréal, s.e.c.

18. COMPARATIVE DATA

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION (1)

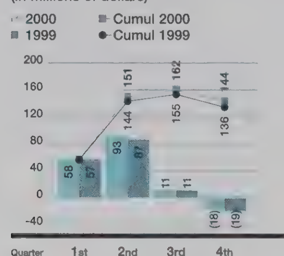
Years ended September 30 (in thousands of dollars)

2000	1st	2nd	3rd	4th	Year
Revenues	$437,079	$548,521	$351,220	$296,916	$1,633,736
Gross margin	$153,053	$194,988	$107,473	$ 77,912	$ 533,426
Partners' income	$ 58,077	$ 92,778	$ 11,316	$ (18,449)	$ 143,722
Partners' income per unit (in dollars)	$ 0.53	$ 0.84	$ 0.10	$ (0.17)	$ 1.30
Distribution paid (in dollars)	$ 0.310	$ 0.310	$ 0.310	$ 0.310	$ 1.24
Partners' equity per unit (in dollars)	$ 7.41	$ 7.95	$ 7.76	$ 7.30	$ 7.30
Market prices (in dollars):					
High	$ 17.00	$ 15.10	$ 15.70	$ 17.00	$ 17.00
Low	$ 13.50	$ 13.40	$ 13.75	$ 13.40	$ 13.40
Close–Toronto Stock Exchange	$ 14.25	$ 14.45	$ 15.00	$ 15.60	$ 15.60
Number of units outstanding (in millions)	110.5	110.5	110.5	110.5	110.5

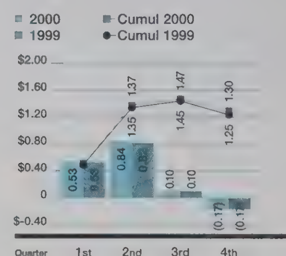
1999	1st	2nd	3rd	4th	Year
Revenues	$385,302	$466,362	$263,154	$224,204	$1,339,022
Gross margin	$147,227	$177,030	$100,772	$ 72,626	$ 497,655
Partners' income	$ 57,059	$ 86,920	$ 11,017	$ (19,224)	$ 135,772
Partners' income per unit (in dollars) (a)	$ 0.53	$ 0.82	$ 0.10	$ (0.17)	$ 1.28
Distribution paid (in dollars)	$ 0.320	$ 0.310	$ 0.310	$ 0.310	$ 1.25
Partners' equity per unit (in dollars)	$ 7.14	$ 7.90	$ 7.70	$ 7.21	$ 7.21
Market prices (in dollars):					
High	$ 18.85	$ 18.75	$ 18.50	$ 18.00	$ 18.85
Low	$ 17.40	$ 17.15	$ 17.30	$ 16.30	$ 16.30
Close–Toronto Stock Exchange	$ 18.40	$ 17.30	$ 17.80	$ 17.00	$ 17.00
Number of units outstanding (in millions)	106.9	110.1	110.5	110.5	110.5

Seasonal temperature fluctuations affect GMCLP's quarterly financial results, as the following charts show.
(1) Unaudited quarterly data.

PARTNERS' INCOME
(in millions of dollars)



PARTNERS' INCOME
PER UNIT (a)



(a) The total of these amounts for 1999 is not the same as the amount for the entire year because of the changes in the average number of units outstanding during the year.

Years ended September 30	2000	1999	1998	1997	1996
NATURAL GAS DELIVERIES (10^6m^3)					
DISTRIBUTION					
Industrial					
Firm service	2,377	2,372	2,549	2,514	2,337
Interruptible service	1,414	1,354	1,369	1,442	1,437
Commercial	1,833	1,710	1,566	1,724	1,681
Residential	724	687	685	752	756
Total (10^6m^3)	6,348	6,123	6,169	6,432	6,211
Total (Bcf)	224	216	218	227	219
TRANSMISSION (2) (3)					
(10^6m^3)	5,855	3,928	3,335	3,535	3,437
(Bcf)	207	139	118	125	121
CUSTOMERS (distribution)					
Industrial	2,038	2,095	2,062	2,067	2,028
Commercial	45,307	43,826	42,285	41,053	39,748
Residential	136,117	133,734	133,587	133,461	133,305
Total	183,462	179,655	177,934	176,581	175,081
SYSTEM DATA					
Length of pipelines (in km)					
DISTRIBUTION					
Canada	8,775	8,493	8,328	8,144	8,019
United States	828	815	787	759	712
Total	9,603	9,308	9,115	8,903	8,731
TRANSMISSION (2)					
Canada	670	670	453	453	453
United States	489	474	–	–	–
Total	1,159	1,144	453	453	453
Gross fixed assets (in millions of dollars)	2,477	2,396	2,235	1,987	1,914
Net fixed assets (in millions of dollars)	1,741	1,727	1,628	1,447	1,426
Capital expenditures and deferred charges (in millions of dollars)	139	235	256	121	139
NUMBER OF EMPLOYEES (3)					
DISTRIBUTION					
GMCLP	1,300	1,292	1,276	1,261	1,251
NNEG	147	144	154	117	115
	1,447	1,436	1,430	1,378	1,366
TRANSMISSION					
TQM	70	66	65	58	59
PNGTS	29	29	17	–	–
	99	95	82	58	59
ENERGY SERVICES AND OTHER					
GMPLP	89	26	24	18	21
CONSULGAZ	4	3	2	1	1
CCUM	24	21	21	20	20
SOGENER	11	5	1	–	–
TELDIG	8	8	–	–	–
SOFAME	22	23	–	–	–
AQUA-REHAB	29	40	–	–	–
AQUA DATA	57	59	–	–	–
	244	185	48	39	42

(1) Unaudited data.
(2) Includes volumes transmitted and delivered by TQM to the distribution sector (GMCLP) and PNGTS.
(3) Data not adjusted for GMCLP's percentage interest in the subsidiaries and joint ventures.

TEN-YEAR REVIEW—CONSOLIDATED FINANCIAL INFORMATION

Years ended September 30 (in thousands of dollars)	2000	1999	1998
SUMMARY OF RESULTS			
Revenues	$1,633,736	$1,339,022	$1,216,923
Direct costs	1,100,310	841,367	736,063
Gross margin	533,426	497,655	480,860
Operations and maintenance [1]	176,109	164,556	159,246
Operating income before depreciation and amortization	357,317	333,099	321,614
Depreciation and amortization	120,797	106,834	100,788
Operating income	236,520	226,265	220,826
Financial expense	92,798	90,493	80,080
PARTNERS' INCOME	$ 143,722	$ 135,772	$ 140,746
CASH FLOWS			
Operating activities (including working capital)	$ 190,003	$ 246,539	$ 231,691
Investing activities	(142,657)	(242,372)	(265,771)
Financing activities:			
Distributions paid to Partners	(136,981)	(134,748)	(138,459)
Other financing activities	84,513	111,620	198,432
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (5,122)	$ (18,961)	$ 25,893
PER UNIT DATA [2]			
Partners' income (in dollars)	$ 1.30	$ 1.25	$ 1.32
Operating cash flows based on weighted average number of units outstanding (in dollars)	$ 1.72	$ 2.27	$ 2.17
Distribution announced (in dollars)	$ 1.24	$ 1.24	$ 1.29
Partners' equity (in dollars)	$ 7.30	$ 7.21	$ 6.93
Weighted average number of units outstanding (in thousands)	110,469	108,671	106,918
Number of units outstanding as at September 30 (in thousands)	110,469	110,469	106,918
FINANCIAL STRUCTURE			
Debt maturing within one year	$ 3,722	$ 11,321	$ 10,053
Long-term debt	1,189,766	1,082,376	1,034,770
Total debt	1,193,488	1,093,697	1,044,823
Partners' equity	805,960	796,823	740,943
TOTAL	$1,999,448	$1,890,520	$1,785,766
TOTAL DEBT/TOTAL CAPITALIZATION	59.7%	57.9%	58.5%
INTEREST COVERAGE RATIO ON CONSOLIDATED LONG-TERM DEBT	2.7	2.6	2.9
TOTAL ASSETS	$2,262,939	$2,137,998	$2,017,255
FINANCIAL INFORMATION RELATED TO DETERMINATION OF RATE OF RETURN BY THE RÉGIE DE L'ÉNERGIE [4] [5]			
Rate base [6]	$1,486,889	$1,413,245	$1,397,303
Deemed common equity [6]	38.50%	38.50%	38.53%
Authorized rate of return on deemed common equity	9.72%	9.64%	10.75%
Deemed prefered equity [6]	7.45%	7.50%	7.50%
Authorized rate of return on deemed prefered equity	5.61%	5.88%	5.63%
Deemed tax expense	$ 63,890	$ 55,716	$ 56,817

(1) Include development activities.
(2) GMCLP has been a listed partnership since 1993.
(3) Pro forma net income of $1.15 calculated as if the net income for the initial Partners until January 31, 1993 had been distributed on the first day of the fiscal year and as if the units had been issued on the same date.

1997	1996	1995	1994	1993	1992	1991
$1,197,742	$1,117,600	$1,088,164	$1,221,470	$1,050,361	$1,076,975	$ 995,267
722,052	643,278	628,196	788,566	654,882	696,188	629,038
475,690	474,322	459,968	432,904	395,479	380,787	366,229
158,369	145,171	149,464	144,492	143,190	125,715	114,988
317,321	329,151	310,504	288,412	252,289	255,072	251,241
92,358	87,634	82,006	78,366	67,886	67,528	62,747
224,963	241,517	228,498	210,046	184,403	187,544	188,494
86,256	95,689	93,490	86,433	73,035	76,501	76,559
$ 138,707	$ 145,828	$ 135,008	$ 123,613	$ 111,368	$ 111,043	$ 111,935
$ 246,294	$ 298,436	$ 253,324	$ 225,667	$ 222,567	$ 227,242	$ 150,190
(118,823)	(145,530)	(241,226)	(244,029)	(193,129)	(95,412)	(99,108)
(142,200)	(141,666)	(132,893)	(120,931)	(172,444)	(73,466)	(127,437)
17,000	(18,240)	120,489	136,929	152,676	(58,364)	76,203
$ 2,271	$ (7,000)	$ (306)	$ (2,364)	$ 9,670	$ 0	$ (152)
$ 1.30	$ 1.36	$ 1.30	$ 1.24	$ 1.15 [3]	–	–
$ 2.30	$ 2.79	$ 2.43	$ 2.27	$ 2.40	–	–
$ 1.32	$ 1.33	$ 1.32	$ 1.23	$ 1.15	–	–
$ 6.85	$ 6.87	$ 6.83	$ 6.50	$ 6.21	–	–
106,918	106,918	104,215	99,350	92,704	–	–
106,918	106,918	106,918	100,708	96,508	–	–
$ 26,023	$ 12,071	$ 81,300	$ 56,220	$ 4,023	$ 44,600	$ 4,600
819,829	841,934	767,467	738,961	615,132	512,235	608,839
845,852	854,005	848,767	795,181	619,155	556,835	613,439
732,148	734,903	730,329	654,415	598,861	555,972	532,096
$1,578,000	$1,588,908	$1,579,096	$1,449,596	$1,218,016	$1,112,807	$1,145,535
53.6%	53.7%	53.8%	54.9%	50.8%	50.0%	53.6%
2.7	2.7	2.5	2.5	2.6	2.6	2.5
$1,775,254	$1,749,361	$1,760,611	$1,647,436	$1,376,981	$1,269,039	$1,269,001
$1,352,240	$1,340,108	$1,318,244	$1,228,911	$1,177,978	$1,164,793	$1,152,835
39.39%	38.14%	37.99%	38.26%	39.13%	38.48%	38.61%
11.50%	12.00%	12.00%	12.00%	12.50%	14.00%	14.25%
7.64%	7.60%	7.40%	7.33%	7.50%	7.33%	7.48%
5.36%	6.43%	6.74%	5.80%	5.73%	6.47%	8.20%
$ 56,954	$ 59,100	$ 45,322	$ 47,776	$ 44,825	$ 41,031	$ 37,999

(4) Unaudited data.
(5) As noted under the accounting policies in the consolidated financial statements of GMCLP (under Regulation).
(6) Calculated on a monthly average based on capitalization that differs from the financial structure as recorded in the balance sheet of GMCLP due to the inclusion of short-term financing, securitization of trade receivables and other items.

Gaz Métropolitain, inc. (the Company), as general partner, is essentially devoted to managing the affairs of Gaz Métropolitain and Company, Limited Partnership (the Partnership).

As part of this responsibility, and in accordance with the requirements of the Toronto Stock Exchange on which the Partnership's units are traded, the following text summarizes the Company's corporate governance policies and practices. Approved by the Board of Directors on November 15, 2000, this statement satisfies the Stock Exchange guidelines.

The Company, which holds 77.4% of the Partnership's units, is a wholly-owned subsidiary of Noverco Inc., a private company.

1. COMPOSITION OF THE BOARD OF DIRECTORS

The Board of Directors is made up of fourteen directors appointed by the sole shareholder. The Board believes that this size, which falls in the median range for similar companies, makes it possible to optimize the range of competencies and experience.

Within the meaning of the Stock Exchange guidelines, only the President and Chief Executive Officer is an inside director since he is an employee of the Partnership and an officer of the Company. The remaining directors are "unrelated" i.e. they are independent of management and are free from any interest or other relationship, other than the shareholder relationship, which could, or could reasonably be perceived to, materially interfere with their ability to act in the best interests of the Partnership.

The Board includes at this time six directors, including the President and Chief Executive Officer, who are considered as independent in relation to the sole shareholder. The remaining eight directors are related to the sole shareholder.

2. INDEPENDENCE OF THE BOARD FROM MANAGEMENT

The aforementioned information about the composition of the Board, in particular the fact that directors are chosen by the sole shareholder and that only one of them is an inside director, illustrates the independence of the Board from management. In addition, the Chairman of the Board is an unrelated, outside director.

3. RESPONSIBILITIES OF THE BOARD

As prescribed by the Companies Act (Québec) and the Company's General By-laws, the Company's affairs are managed by the Board of Directors. (The sole shareholder, by virtue of the law and General By-laws, may restrict the authority of the Board if it makes a written declaration to that effect, which it has never done to date.) As previously indicated, the business of the Company is essentially to manage the affairs of the Partnership. Gaz Métropolitain's financial objective is to provide its Partners with a stable, predictable return, accompanied by growth in value over the years. From a business perspective, the Partnership intends to provide its customers with high-quality energy services at the lowest possible cost, through policies and programs aimed at motivating its employees and business partners.

The Board is responsible for supervising the management of the business with the objective of ensuring that its resources and potential are used and exploited in such a way as to create value for the Partners in accordance with applicable laws, standards and social responsibility. This growth objective includes protecting the value of the business against risks with which it is faced.

To effectively discharge its duty, the Board of Directors adopted a written mandate which sets forth the responsibilities it reserves to itself as well as the specific responsibilities which are delegated to the President and Chief Executive Officer. Furthermore, a written mandate for each Board committee has been approved by the Board.

4. SPECIFIC RESPONSIBILITIES OF THE BOARD

Responsibilities of the Board include:

- the appointment of officers and setting out their responsibilities and authority for binding the Company;
- hiring, remuneration and evaluation of senior executives, as well as succession planning;
- approval of strategic plan and business plans flowing therefrom;
- approval of operating and capital budgets;
- approval of projects of the Company, or a subsidiary, for a major (i.e. in terms of dollars or strategic nature) acquisition or investment;
- approval of significant reorganizations or downsizings;
- authorization for the issue or redemption of the Company's or Partnership's securities;
- approval of material borrowings or financial commitments;
- approval of annual audited financial statements, quarterly financial statements and Annual Information Forms;
- approval of dividends or capital reductions by the Company and the declaration of the distribution of the Partnership's income;
- approval of a communications policy with public investors.

In addition, the Board, either directly or through its committees, is also responsible for:

- identification of the principal risks relating to the business and implementation of systems for managing them;
- establishment of annual and long-term objectives, which are translated into individual objectives for management, and monitoring their results;
- integrity of internal control and management information systems;
- quality of communications with the investing public and financial market and media representatives.

5. COMPOSITION AND POSITION DESCRIPTIONS OF BOARD COMMITTEES

Except for the Executive Committee, which has the President and Chief Executive Officer as a member, Board committees are made up solely of outside, unrelated directors.

The position descriptions and objectives of these committees are summarized below:

5.1 HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

Regarding corporate governance matters, the Committee shall be responsible for reviewing practices followed by the Board and its committees in overseeing the management of the Corporation's affairs, assessing board and committee effectiveness in this regard and making recommendations to the Board for improvements to corporate governance practices.

In addition, the Committee shall communicate to the sole shareholder its opinion on candidates the sole shareholder has proposed as directors or on those individuals that should be considered.

From time to time, the Committee shall review director remuneration.

Regarding human resources matters, the Committee shall be responsible for reviewing all human resources issues which come under the jurisdiction of the Board of Directors and, for certain of those issues, making a final decision.

5.2 EXECUTIVE COMMITTEE

The Executive Committee shall possess and may exercise all powers of the Board of Directors, subject only to the relevant provisions of applicable legislation and restrictions imposed from time to time by the Board of Directors.

5.3 AUDIT COMMITTEE

The Committee shall be responsible for reviewing the financial information published by the Company and the Partnership, as well as how the risks that may affect the financial well-being of the organization are managed. It shall ensure that:

- there is an adequate risk management program for protecting the organization's assets;
- both the external and internal auditors are independent; and
- financial information transmitted to the directors and the investing public is complete and objective.

The Committee's specific responsibilities are broken down into five areas, namely external audit and auditor, financial information, internal audit and risk management.

5.4 PENSION FUND COMMITTEE

The Committee's mandate is twofold: to oversee, for the Board, management of the Partnership's pension funds by the pension committees created by law, a majority of whose members are management representatives and to assume the delegated powers and responsibilities of these pension plan committees relating to the investment policy for funds held in the global trust making up the pension plans, as well as the selection and monitoring of managers.

6. ORIENTATION AND TRAINING OF NEW DIRECTORS

Every new director shall be provided with a manual which includes a description of the Company and the Partnership, a summary of the duties, obligations and responsibilities of a director as well as a copy of the mandates of the Board and its committees. Every new director shall also be invited to meet with senior executives in order to gain an understanding of each sector of activity and to get to know each of them.

In addition, management periodically holds information sessions on different aspects of the business operation. All directors shall be invited to these sessions.

7. OUTSIDE CONSULTANTS' SERVICES FOR DIRECTORS

Should a director wish to engage an outside consultant at the Company's expense, he (she) may do so with the prior approval of the Board of Directors or the Executive Committee or, in the case of an emergency, the Chairman of the Board.

8. RELATIONS WITH PARTNERS AND THE INVESTING PUBLIC

The Board, and in particular the Audit Committee, ensure that financial information for the Partners and the investing public is complete and objective, and that it is communicated within the timeframe established by the securities commissions and the Stock Exchange. For that purpose, the principal communication sources, i.e. the Annual Report, the Annual Information Form, the Quarterly Reports and the Prospectuses, as well as the related press releases, are reviewed.

This information, as well as investor information sheet and other general information about the Partnership are available on the Internet site (www.gazmetro.com). Any Partner who wants to contact the Partnership in order to obtain information or to express its views can communicate with the Investor Relations Coordinator, the Treasurer or the Vice President and Chief Financial Officer.

The Board sees to it that management maintains transparent and continuous communications with financial analysts, institutional investors and other financial market intervenors so that there will be proper recognition of the Partnership's performance.

MARKET INFORMATION

- Unit listed on the Toronto Stock Exchange under the symbol GZM.UN.
- Unit prices for the last 12 months (from October 1, 1999 to September 30, 2000):

	2000	1999
High	$17.00	$18.85
Low	$13.40	$16.30

— 110.5 million units outstanding with a market value of $1.7 billion as at June 30, 2000. At the same date, the market value of the 25.0 million units held by the limited Partners was $390 million.

UNIT TAX FEATURES

— Eligible investment for RRSP purposes – no restrictions.

— Income is taxable as business income and Partners have to file a Québec income tax return, regardless of their province of residence.

— Partners are allocated their share of the Partnership's taxable income on a pro rata basis in accordance with distributions received. Income tax information slips (T5013 for federal purposes and Relevé 15 for Québec purposes) are prepared and issued by the brokers. The Partnership prepares an explanatory guide for the preparation of corporate and individual income tax returns. This guide is sent with the tax information slips.

— The Partnership's income for tax purposes differs from accounting income due to differences between accounting principles and tax legislation. On average, since 1993, income for tax purposes has exceeded distributions by 5.3% for federal purposes and 4.4% for Québec purposes. Historically, the differences have been as high as +19.4% (unfavourable variance for a taxable Partner) and as low as –18.1% (favourable variance for a taxable Partner). For the year ended September 30, 2000, income for tax purposes exceeded distributions by 15.9% for both federal and Québec purposes. Partners that hold their units in a non-taxable vehicle, such as an RRSP, are in no way affected by the difference between income for tax purposes and distributions received.

— Partners who are not resident in Canada must file both a federal and Québec income tax return and, under the terms of the Partnership Agreement, a Partner who is a "non-resident" of Canada can be required to sell his units to a person who is not a "non-resident".

— As the result of an amendment to the Act respecting the Québec Pension Plan, business income earned as a limited partner will no longer be subject to Québec Pension Plan contributions when the limited partner does not actively participate in the operations of the Partnership (retroactive to January 1, 1999).

INCOME DISTRIBUTIONS

— Policy is to distribute virtually all of the income in each fiscal year.

— Quarterly distributions are paid on January 1, April 1, July 1 and October 1 to Partners of record at the close of business on December 15, March 15, June 15 and September 15 of each year.

— The Partnership approved a quarterly distribution of $0.32 per unit payable on January 1, 2001.

— Partners may request that their income distributions be deposited directly into a Canadian bank account. This rapid, reliable and convenient service is offered by most banks and other financial institutions. To take advantage of this direct deposit service, contact Montréal Trust Company Investors Services Department at (514) 982-7555 or 1-800-564-6253.

GENERAL INFORMATION

Trustee: Montréal Trust Company, Montréal

Annual meeting: The Partnership's annual meeting of Partners will be held at 4:00 p.m. on Wednesday, February 7, 2001, in the Régence Meeting Room of the Delta Centre-Ville Hotel, 777 University, Montréal, Québec.

Publication of results: Following approval by the Board of Directors, the quarterly results will be published around the following dates:

1st quarter: February 21, 2001 — 3rd quarter: August 15, 2001
2nd quarter: May 16, 2001 — 4th quarter: November 15, 2001

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Operating Officer
Enbridge Inc.

NICOLLE FORGET [3, 4]
Corporate Director and
Chairman of the Board
Accessum Inc.

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President and Chief
Executive Officer
Cambior Inc.

MICHEL GOURDEAU [1, 2]
Executive Vice President
Natural Gas Sector
Hydro-Québec

ROGER LANOUE [3]
Vice President
Research and
Strategic Planning
Hydro-Québec

BERNARD LEMAIRE [1, 4]
Chairman
Cascades Inc.

PIERRE-YVES MADIGNIER [1]
Office Director for
Senior Executives
EDF GDF Services

MICHEL MARUENDA
Deputy Executive
Vice President
Gas Distribution Division
EDF GDF Services

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(Vice Chairman of the Board)
President
The Bank of Montréal
Group of companies,
Québec

ROBERT PARIZEAU [1,2,3,4]
(Chairman of the Board)
Chairman of the Board
Aon Parizeau Inc.

RÉAL SUREAU [2,3]
Corporate Director and
Vice Chairperson,
Patented Medicine Prices
Review Board

ROBERT TESSIER [1]
President and Chief
Executive Officer
Gaz Métropolitain, inc.

MANAGEMENT

ROBERT TESSIER
President and Chief
Executive Officer

RENÉ BÉDARD
Corporate Secretary

STÉPHANE BERTRAND
Vice President
Communications, Public
and Governmental Affairs

ANDRÉ BOULANGER
Vice President
Sales-Marketing

SOPHIE BROCHU
Vice President
Business Development
and Gas Supply

JACQUES CHARRON
Vice President
Human Resources and
Technology Development

PIERRE DESPARS
Vice President
Corporate Affairs

ANDRÉ GOUGEON
Vice President
Energy Services

RICHARD LASSONDE
Vice President
Legal Affairs

LUC SICOTTE
Vice President and
Chief Financial Officer

MICHEL VEILLETTE
Vice President
Operations

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Pension Fund Committee
4 Member of the Human Resources and Corporate Governance Committee

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